(47)

No. 05-130
Title: eBay Inc., et al., Petitioners
v.
MercExchange, L.L.C.
Docketed: July 27, 2005
Lower Ct: United States Court of Appeals for the Federal Circuit
Case Nos.: (03-1600, 03-1616)
Decision Date: March 16, 2005
Rehearing Denied: April 26, 2005
Questions Presented

| ~~~Date~~~ | ~~~~~~~Proceedings and Orders~~~~~~~

Jan 26 2006	Brief amicus curiae of Bar Association of the District of Columbia - Patent,Trademark & Copyright Section filed.
Jan 26 2006	Brief amicus curiae of Teva Pharmaceuticals USA, Inc.filed.
Jan 26 2006	Brief amicus curiae of Yahoo! Inc. filed.
Jan 26 2006	Brief amicus curiae of American Innovators' Alliance filed.
Jan 26 2006	Brief of petitioners eBay Inc.and Half.com, Inc. filed.
Jan 26 2006	Brief amici curiae of Electronic Frontier Foundation, et al. filed.
Jan 26 2006	Brief amicus curiae of International Business Machines Corporation filed.
Jan 26 2006	Brief amicus curiae of Computer & Communications Industry Association filed.
Jan 26 2006	Brief amicus curiae of Association of the Bar of the City of New York filed.
Jan 26 2006	Brief amicus curiae of Research in Motion, Ltd. filed.
Jan 26 2006	Brief amici curiae of 52 Intellectual Property Professors filed.
Jan 26 2006	Brief amici curiae of Securities Industry Association, et al. filed.
Jan 26 2006	Brief amici curiae of Time Warner Inc., et al. filed.
Jan 26 2006	Brief amicus curiae of Nokia Corporation filed.
Jan 26 2006	Joint appendix filed. (Jt. appendix in three volumes).
Feb 7 2006	CIRCULATED.
Feb 24 2006	Record received from U.S.C.A. for Federal Circuit. (1 box)
Feb 24 2006	Record received from U.S.D.C. for the Eastern District of Virginia. (Norfolk) (26 boxes).
Mar 9 2006	Brief amici curiae of United Inventors Association, and Technology Licensing Corporation filed. (Distributed)
Mar 10 2006	Brief of respondent MercExchange, L.L.C. filed. (Distributed)
Mar 10 2006	Brief amici curiae of General Electric Company, et al. filed. (Distributed)
Mar 10 2006	Brief amicus curiae of United States filed. (Distributed)
Mar 10 2006	Brief amicus curiae of Biotechnology Industry Organization filed. (Distributed)
Mar 10 2006	Brief amicus curiae of Various Law & Economics Professors filed. (Distributed)
Mar 10 2006	Brief amici curiae of Martin Cooper, et al, . filed. (Distributed)
Mar 10 2006	Brief amicus curiae of Steven M. Hoffberg filed. (Distributed)
Mar 10 2006	Brief amici curiae of Technology Patents & Licensing, Inc., et al. filed. (Distributed)
Mar 10 2006	Brief amici curiae of Qualcomm Incorporated, et al. filed. (Distributed)
Mar 10 2006	Brief amici curiae of Association of American Universities, et al. filed. (Distributed)
Mar 10 2006	Brief amicus curiae of American Bar Association filed. (Distributed)
Mar 10 2006	Brief amicus curiae of Rembrandt IP Management, LLC filed. (Distributed)
Mar 10 2006	Brief amici curiae of Wisconsin Alumni Research Foundation, et al. filed. (Distributed)
Mar 10 2006	Brief amicus curiae of Pharmaceutical Research and Manufacturers of America filed. Distributed).
Mar 13 2006	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument filed.
Mar 17 2006	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument GRANTED.
Mar 17 2006	Reply of petitioners eBay Inc., et al. filed. (Distributed)
Mar 20 2006	Letter from counsel for the respondents received. (Distributed).

Mar 27 2006 Letter proposing lodging of copies of a U.S. Patent and Trademark Office report, from counsel for petitioner received. (Distributed).

Mar 29 2006 Argued. For petitioner: Carter G. Phillips, Washington, D.C. For respondent: Seth P. Waxman, Washington, D.C.; and Jeffrey P. Minear, Assistant to the Solicitor General, Department of Justice, Washington, D.C. (for United States, as amicus curiae.)

05-130 JUL 25 2005

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No. 05-

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

PARTIES TO THE PROCEEDINGS

In addition to the parties named in the caption, ReturnBuy, Inc. was initially a defendant in this action. Prior to trial, ReturnBuy, Inc. filed for bankruptcy protection and settled with respondent MercExchange, L.L.C.

Petitioner eBay Inc. has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Petitioner Half.com, Inc. is a wholly owned subsidiary of Petitioner eBay Inc., which is a publicly held corporation.

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PETITION FOR CERTIORARI

Petitioners eBay Inc. and Half.com, Inc. ("eBay") respectfully seek a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the Federal Circuit (App. 1a-28a) was entered on March 16, 2005, and is reported at 401 F.3d 1323 (Fed. Cir. 2005). The order denying the Petition for Panel Rehearing and Rehearing en Banc (App. 77a-78a) was entered on April 26, 2005 and is unreported. The decision of the district court (App. 29a-74a) was entered on August 6, 2003, and is reported at 275 F. Supp. 2d 695 (E.D. Va. 2003).

JURISDICTION

The court of appeals entered its judgment in this case on March 16, 2005 and denied the Petition for Rehearing en Banc on April 26, 2005. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 283 of the Patent Act, 35 U.S.C. § 283, provides that:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

STATEMENT OF THE CASE

This case presents an important question of federal patent law with significant implications for the Nation's economy.

A permanent injunction in the context of patent law is a potent remedy. The enjoined defendant is faced with tough choices: redesign its product or the product's functionality to eliminate reliance on the patent, negotiate a license on possibly onerous terms, or cease production or use altogether. Recognizing that this powerful and coercive remedy is not always appropriate, Congress has expressly authorized district courts to use their equitable discretion in granting injunctions in patent cases. In particular, § 283 of the Patent Act provides that an injunction may issue to prevent future violations only when the relief comports with the principles of equity. 35 U.S.C. § 283.

The Federal Circuit has decided to ignore this rule. And in its place, the court of appeals has authored its own variant of § 283, replacing equitable discretion with a virtually irrebuttable presumption that permanent injunctions will issue absent the exceptional circumstance where injunctive relief would pose a harm to the public interest by endangering the public health.

The consequences of this rule are clear. Injunctions will issue even when, as in this case, the district court has decided that the balance of the equities requires otherwise. Plaintiffs who will suffer no irreparable injury, because their future losses are fully compensable by ordinary money damages, nevertheless would receive a patent injunction. Indeed, the Federal Circuit's rule compels the grant of an injunction even if a trial court determines that an injunction would cause more hardship to the defendant than the plaintiff. Moreover, denials of permanent injunctions are no longer reviewed for abuse of a court's equitable discretion; courts must instead offer a "persuasive reason" to the reviewing court showing why its case "is sufficiently exceptional to justify the denial of a permanent injunction." App. 26a.

Such a drastic restriction on equity is fundamentally incompatible with this Court's precedents, which have long taught that the federal courts retain their equitable powers

absent a contrary indication from Congress. *Amoco Prod. Co.* v. *Village of Gambell, Alaska*, 480 U.S. 531 (1987); *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982); *Hecht Co.* v. *Bowles*, 321 U.S. 321 (1944). Given that the clear language of § 283 indisputably imbues districts courts with discretion, and does not rely upon any wooden presumptions, these rulings cast serious doubt on the holding below and thus warrant this Court's further review.

In light of the dramatic rise in patent litigation, the Federal Circuit's automatic injunction rule will have a significant and detrimental impact on innovating companies. Between 1994 and 2004, the district courts have seen a fully 90 percent increase in the number of filed patent cases. See L. Mecham, Admin. Office of the U.S. Courts, Archive of Annual Reports, *Judicial Business of the United States Courts* tbl. C-2A (1997-2004), http://www.uscourts.gov/judbususc/judbus.html. Given the Federal Circuit's rule, permanent injunctions will issue in virtually every case where infringement is found, even if § 283 and equitable principles counsel otherwise.

By transforming an extraordinary remedy into one that issues by default, the Federal Circuit has imposed substantial and unwarranted costs on innovating companies. Injunctions subject defendants to all the civil contempt powers that a federal court has to coerce compliance. This can present a grave risk to companies in the patent context, where the defendant's sunk costs may be substantial and the boundary lines of a patent may not be clear. Indeed, as the Federal Circuit itself acknowledged, it is not unusual for there to be numerous post-trial disputes as to the definition of a particular patent. App. 27a. Owing to these uncertain liabilities and unclear patent definitions, a permanent injunction produces tremendous leverage for the plaintiff in ensuing license negotiations. By directing courts to confer permanent injunctions even when § 283 and equitable principles may counsel otherwise, the Federal Circuit's "general rule" transforms injunctive relief from a remedy designed "to

protect a patent against infringement" into "a club to be wielded by a patentee to enhance his negotiating stance." *Foster* v. *American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

These *in terrorem* license fees are especially troubling given the rise of "patent assertion" companies, which buy patents not to practice an invention, but to assert infringement claims against other companies. As the district court found, entities such as MercExchange exist for no other purpose but to threaten infringement suits in hopes of securing a profitable license through litigation or settlement. App. 54a. These firms do not practice their often purchased inventions; they litigate. To such companies, the permanent injunction is not a remedy for patent protection, but instead serves as a strategic means to extract a higher licensing fee. It also supplies a mechanism for endless litigation over the meaning of the injunction, which serves as a serious drain on limited judicial and litigant resources. It is therefore ironic that the sole exception to the Federal Circuit's *per se* rule concerns harm to the public interest, albeit only in the narrow sphere of public health. By commanding district courts to issue permanent injunctions as a matter of course, the Federal Circuit's rule will impose tremendous costs on innovation. In light of the pressing importance of this issue, this Court should review the Federal Circuit's decision.

A. Statutory Background

Rooted in the Constitution, Art. I, § 8, cl. 8, patent protection has long been essential to the development of innovation. But the rights attendant to patent ownership by no means have been absolute. Rather, the patent laws, including their remedial scheme, reflect a careful balancing of countervailing interests. In particular, the remedies available for patent infringement suits aim to strike a balance between compensation and overdeterrence. While the value of a patent depends on effective enforcement, setting the penalties for infringement too high will deter companies from

innovating for fear of crippling liability. As Justice Stevens has observed, "[f]ederal interests are threatened, not only by inadequate protection for patentees, but also when overprotection may have an adverse impact on a competitive economy." *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 650 (1999) (Stevens, J., dissenting) (citing *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 162-63 (1989)).

Congress's several modifications to the patent law's remedial scheme reflect this balance—a balance which the Federal Circuit's *per se* rule upsets. The First Congress's Patent Act of 1790 did not contain the express authority for federal courts to grant injunctive relief. It was not until 1819 that Congress conferred equitable jurisdiction in patent cases, using language that remains nearly untouched to this day. Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481-82 (granting federal courts "upon any bill in equity . . . authority to grant injunctions, according to the course and principles of courts of equity . . . on such terms and conditions as the said court may deem fit and reasonable"). Similarly, while the Patent Act of 1870 added a provision permitting the recovery of a defendant's profits, Act of July 8, 1870, ch. 230, § 55, 16 Stat. 198, 206, Congress eliminated that form of equitable relief 76 years later. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778. Aside from these changes, the remedial scheme under the Patent Act has remained settled.

Courts can select from a range of remedies in enforcing the patent laws. Upon a finding of infringement, a court "shall award the claimant damages adequate to compensate for the infringement," which recovery shall be "in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. Patentees that actually practice their patent can seek lost sales and profits resulting from the infringement. See *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1544 (Fed. Cir. 1995) (en banc). In contrast, patentees like MercExchange that do not make use of their patent can

receive "reasonable royalt[ies]," which are calculated according to a "hypothetical negotiation between the patentee and the infringer at the time before the infringing activity began." *Integra Lifesciences I, Ltd.* v. *Merck KgaA*, 331 F.3d 860, 869 (Fed. Cir. 2003), *vacated on other grounds*, No. 03-1237, 2005 WL 1383624 (U.S. June 13, 2005).

In addition to compensatory damages, a court can issue punitive or "enhanced" damages for willful infringement of a patent. 35 U.S.C. § 284 ("the court may increase the damages up to three times the amount found or assessed"); *Sensonics, Inc.* v. *Aerosonic Corp.*, 81 F.3d 1566, 1573 (Fed. Cir. 1996). Moreover, in exceptional cases, a court may award attorney's fees to the prevailing party. 35 U.S.C. § 285.

Like the enhanced damages and the fee-shifting provision, the statute provides that courts have the discretion, but are not obligated, to award injunctive relief, either preliminarily or at the end of a trial. *Id.* § 283. Under § 283, courts are directed to consider the principles of equity and not mechanically to issue the "extraordinary remedy of [an] injunction." *Romero-Barcelo*, 456 U.S. at 312. In light of the potentially crippling consequences to the defendant of an injunction, Congress's choice to accord district courts with the equitable discretion to grant or deny injunctive relief is eminently sensible.

B. The Underlying Dispute

Petitioner eBay operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods either through an auction-style format or at a fixed price. Petitioner Half.com, a wholly-owned subsidiary of eBay, operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods at a fixed price and that formerly provided users with a price comparison for certain items offered for sale on other websites. In particular, as the court of appeals observed, "[a]t issue in this case is the fixed-price purchasing feature of eBay's website, which allows customers to purchase items

that are listed on eBay's website for a fixed, listed price." App. 2a.

The three patents at issue in this litigation were assigned to respondent MercExchange, L.L.C. ("MercExchange"), which, as the district court found, "does not practice its inventions and exists merely to license its patented technology to others." App. 54a. The three patents include U.S. Patent Nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). *Id.* at 1a. MercExchange filed a suit in the United States District Court for the Eastern District of Virginia, alleging infringement of all three patents. MercExchange sued eBay, Half.com, and ReturnBuy, Inc., ("ReturnBuy"), which owned and operated an Internet website that directed its customers to eBay's website where they could purchase ReturnBuy's goods.[1]

The district court granted in part and denied in part eBay's motion for summary judgment as to the '051 patent, leaving the '265 and '176 patents for trial. At the end of the trial, the jury concluded that eBay did not overcome the presumption that the '265 and '176 patents were valid and further determined that those patents had been infringed. In particular, the jury found that eBay had willfully infringed the '265 patent and induced ReturnBuy to do the same. Further, the jury concluded that Half.com had willfully infringed the '265 and the '176 patent. The jury held eBay liable for $10.5 million for infringement of the '265 patent and $5.5 million for inducement of ReturnBuy. Half.com was found liable for $19 million for infringing the '176 patent and the '265 patent.

After the close of the trial, the district court considered various motions by the parties, including eBay's motion for a judgment as a matter of law and MercExchange's motion for a permanent injunction.

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[1] Prior to the trial, ReturnBuy filed for bankruptcy protection and executed a settlement with MercExchange.

C. The District Court's Opinion

The district court declined to set aside the jury verdict against eBay for inducement of ReturnBuy, and denied eBay's motion to set aside the remaining findings of infringement. App. 51a. With respect to the '265 patent, however, the district court reduced the jury award by $5.5 million, concluding that the jury's award for both direct infringement and inducement amounted to a double recovery. *Id.* Despite the finding of willfulness by the jury, the court declined to award enhanced damages or attorneys' fees. The district court also rejected MercExchange's motion for a permanent injunction. The court noted that while "the grant of injunctive relief against the infringer is considered the norm . . . the decision to grant or deny injunctive relief remains within discretion of the trial judge." *Id.* at 52a Accordingly, the court analyzed whether an injunction was appropriate using the traditional four-part test.

> "Issuance of injunctive relief against [the defendants] is governed by traditional equitable principles, which require consideration of (i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor."

Id. at 53a (alteration in original) (quoting *Odetics, Inc.* v. *Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998)).

The court found that MercExchange would not suffer irreparable injury in the absence of a permanent injunction. In arriving at this conclusion, the court observed that the

> evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are

> sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue.

App. 55a. Moreover, the district court noted that despite MercExchange's claim that it would suffer irreparable injury without an injunction, it had not moved for a preliminary injunction. "This fact, while certainly not dispositive of the issue, lends additional weight in support of the defendants' arguments that the plaintiff will not be irreparably harmed absent an injunction." *Id.*

With respect to whether there was an adequate remedy at law, the district court first observed that "evidence showing that the patent holder is willing to license his patent rights 'suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case.'" App. 56a (alteration in original) (quoting *High Tech Med. Instrumentation, Inc.* v. *New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995)). While the court recognized that money damages ordinarily would be considered an inadequate remedy for any continuing infringement, it concluded that it was dealing with "an atypical case" and found that MercExchange did have an adequate remedy at law. *Id.*

The court noted that the public interest weighed in favor of both eBay and MercExchange. Although the court recognized that there was a public interest in the integrity of the patent system, it doubted the utility of injunctive relief when the patentee did not practice its inventions. App. 58a.

Lastly, the court concluded that the balance of hardships weighed "slightly" in favor of eBay. The court noted that "[w]hile it is important to respect the rights of the patent holder, in this case, the plaintiff exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." App. 58a. Noting that it had the authority to punish any continuing infringement with enhanced damages, and that any injunction would lead to

additional costly and burdensome litigation both to the parties and more importantly to the court, the district court concluded that a balancing of the hardships tipped in eBay's favor. *Id.* at 58a-59a.

Accordingly, the district court denied MercExchange's motion for a permanent injunction. App. 59a.

In denying eBay and Half.com's motions for a new trial and judgment as a matter of law, the district court also held, *inter alia*, that providing the terms "trusted network" and "legal ownership" to the jury without the explicit construction of the patent terms adopted by the district court before trial was not erroneous. App. 39a-40a; see also *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (holding that the construction of a patent's claims "is exclusively within the province of the court").

eBay appealed and MercExchange cross-appealed the district court's order to the Federal Circuit.

D. The Federal Circuit's Opinion

The court of appeals concluded that the claims with respect to the '176 patent were invalid and accordingly directed judgment for Half.com, thereby setting aside the jury's associated award of $4.5 million. App. 3a. Further, the court held that there was no substantial evidence to support the charge that eBay induced ReturnBuy to infringe the '265 patent, and therefore reversed the district court's judgment in that regard. *Id.*

By contrast, the court found that substantial evidence supported a finding of infringement and validity with respect to the remainder of the '265 patent claims. With respect to remedies, the court of appeals held that the district court did not abuse its discretion in denying MercExchange enhanced damages and attorneys' fees. But, the court reversed the district court's determination that a permanent injunction was not warranted. The court of appeals held that "[b]ecause the

'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." App. 26a (quoting *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). In light of this general rule, the court of appeals concluded that "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Id.*

The court of appeals rejected the reasons the district court cited to support its denial of the injunction. First, the Federal Circuit stated that "[i]n its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of a 'growing concern over the issuance of business-method patents.'" App. 26a (quoting App. 57a). The court reasoned that "[a] general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief." *Id.* Second, the court took issue with the district court's finding that granting an injunction would result in more litigation, reasoning that continuing disputes are not unusual in patent cases. *Id.* at 27a. The court of appeals also held that the "fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the *right to an injunction* to which it would otherwise be *entitled*." *Id.* (emphasis added). Lastly, the court of appeals held that nothing turned on MercExchange's choice not to seek a preliminary injunction because preliminary and permanent injunctions are different, noting that the two types of relief have different requirements. *Id.* at 27a-28a.

The court recognized a narrow exception to its categorical rule requiring injunctive relief. "To be sure, 'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.'" App. 26a (quoting *Rite-Hite Corp.*, 56 F.3d at 1547). "Thus we have

stated that a court may decline to enter an injunction when 'a patentee's failure to practice the planned invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *Id.* (quoting *Rite-Hite Corp.*, 56 F.3d at 1547). According to the Federal Circuit's holding, absent public health risks, the ordinary rules governing equitable relief do not apply to patent law.

The Federal Circuit also affirmed the district court's decision not to instruct the jury in accord with the claim construction adopted by the district court after its *Markman* hearing. Thus, the court upheld the instructions requiring the jury to determine without guidance what constituted a "trusted network" and what is necessary to "transfer *legal* ownership." App. 8a ("it was not necessary for the court to include excerpts from its *Markman* order in the jury instructions").

The Federal Circuit denied eBay's petition for rehearing en banc without opinion. App. 77a-78a. On May 11, 2005, however, it granted eBay's motion for a stay of the mandate pending the outcome of eBay's petition to this Court for a writ of certiorari. *Id.* at 75a-76a.

REASONS FOR GRANTING THE PETITION

The Federal Circuit's sweeping holding in this case is a fundamental misconstruction of the law authorizing patent injunctions. It departs from the statute's plain language, which provides that a court "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. The decisions of this Court have forcefully rejected previous efforts to judicially restrict the equitable powers of the federal courts. Given that this error, which goes to the heart of patent enforcement, could undermine the patent law's promotion of

innovation and certainly will lead to protracted and wasteful litigation, review by this Court is necessary.

Moreover, the Federal Circuit's exclusive appellate jurisdiction over patent disputes, 28 U.S.C. § 1295(a)(4), ensures that the issue raised in this case will not be further vetted in the lower courts. Accordingly, this Court is the only forum available to correct the fundamental departure from statutory construction embodied in the holding below.

I. THE FEDERAL CIRCUIT'S PER SE RULE IS FUNDAMENTALLY INCONSISTENT WITH THE PLAIN LANGUAGE OF § 283 AND THIS COURT'S RULINGS.

The prerequisites for the grant of equitable relief have remained largely unchanged for centuries. See *Hecht Co.*, 321 U.S. at 329-30 ("We are dealing here with the requirements of equity practice with a background of several hundred years of history."). Injunctions "should issue only where the intervention of a court of equity 'is essential in order effectually to protect property rights against injuries otherwise irremediable.'" *Romero-Barcelo*, 456 U.S. at 312 (quoting *Cavanaugh* v. *Looney*, 248 U.S. 453, 456 (1919)). "Thus, the usual basis for injunctive relief [is] 'that there exists some cognizable danger of recurrent violation.'" *Rondeau* v. *Mosinee Paper Co.*, 422 U.S. 49, 59 (1975) (quoting *United States* v. *W.T. Grant Co.*, 345 U.S. 629, 633 (1953)).

In deciding whether to issue an injunction, courts have traditionally considered four factors: irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13. The burden of showing these factors rests with the party seeking the injunction. Cf. *Rondeau*, 422 U.S. at 63 (finding that plaintiffs in securities actions are not "relieved of the burden of establishing the traditional prerequisites of relief."). After

careful consideration of these factors, the district court in this case found that an injunction was unwarranted.

The Federal Circuit has, however, jettisoned the familiar principles of equity in favor of a "general rule" that requires the issuance of a permanent injunction as a matter of course, absent an exceptional circumstance. App. 28a. Although there are scattered Federal Circuit cases that note a court's discretion to grant or deny a permanent injunction, there is a clear pattern of decisions in the Federal Circuit that have stripped away that discretion. See, *e.g.*, *Metabolite Labs., Inc.* v. *Laboratory Corp. of Am. Holdings*, 370 F.3d 1354, 1372 (Fed. Cir. 2004) ("[T]he district court properly granted the injunction because [the defendant] was found to infringe."), *petition for cert. filed*, 73 U.S.L.W. 3298 (U.S. Nov. 3, 2004) (No. 04-607); *Lermer Germany GmbH* v. *Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996) ("A permanent injunction issues to a party after winning on the merits and is ordinarily granted upon a finding of trademark infringement."); *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) ("It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."); *W.L. Gore & Assocs.* v. *Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (same); but see *Joy Techs., Inc.* v. *Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993) ("district courts are . . . given broad discretion . . . to determine whether the facts of a case warrant the grant of an injunction"); *Windsurfing Int'l, Inc.* v. *AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) (same). Indeed, in over two decades of patent cases, the Federal Circuit has not once considered all of the traditional equitable factors—irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would affect adversely the public interest—in deciding whether a permanent injunction was proper.

The consequence of ignoring these prerequisites is the issuance of unnecessary and unwise injunctions. Patentees

who would otherwise be adequately compensated through the payment of money damages would nevertheless enjoy the additional leverage inherent in a permanent injunction. Further, the Federal Circuit's general rule would also compel a district court to close its eyes to potential hardship to the defendant. For instance, the Patent and Trademark Office ("PTO") is authorized to conduct a reexamination of a patent and ultimately reject some or all of the claims associated with that patent. See 35 U.S.C. §§ 303-305.[2] This reexamination can occur at any time during litigation, including after the finding of validity and infringement at the trial court level. A defendant may be subject to a permanent injunction for years

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[2] Patent reexamination is an administrative revocation proceeding, in which any person may request that the PTO revisit its initial finding of patentability. Upon a request for patent reexamination, a PTO examiner preliminarily determines whether a substantial new question of patentability exists. 35 U.S.C. § 303(a). After further examination, the PTO issues the "first office action," in which the patent examiner declares whether or not the patent is valid. The patent owner then has the opportunity to refute the rejections or narrow its claims by amendment. *Id.* § 304; 37 C.F.R. § 1.550. If the PTO ultimately finds that a patentee's claims remain invalid, the agency will issue a "final office action" pursuant to 37 C.F.R. § 1.570, which determination a patentee may challenge before the Board of Patent Appeals. 35 U.S.C. § 306. If the Board affirms the PTO's finding of invalidity, a patentee can appeal to the Federal Circuit or to the United States District Court for the District of Columbia. *Id.* §§ 141, 145. Any determination by the PTO or by the Board of Patent Appeals during reexamination, including claim rejections, is nevertheless *not* a final adjudication on patent validity until the appeals process has concluded. *Id.* § 307(a); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991).

Here, subsequent to the district court's final judgment, the PTO granted eBay's request to reexamine each of the three patents at issue in this case. While the Federal Circuit took judicial notice of the fact that reexamination was ordered for all three patents, it later declined to take judicial notice of the PTO's first office action rejecting the claims in the '265 reexamination. At present, all of the claims in all of the patents at issue stand rejected. The PTO reexamination proceeding will continue independently of the instant litigation.

only to have the PTO subsequently conclude that the patentee's claims were invalid *ab initio*. Meanwhile, that defendant may have been forced to redesign its product or, barring that, shut down its business altogether. While the potential hardship imposed upon a defendant could not be more acute, the Federal Circuit's general rule would nevertheless compel a district court to grant a permanent injunction.

Accordingly, plaintiffs in patent cases need no longer demonstrate that the four traditional prerequisites for permanent injunctions weigh in their favor. Nor do plaintiffs need to show that a permanent injunction is necessary to protect against a patent violation. Rather than having a burden at all, plaintiffs who prevail in infringement actions enjoy a virtually irrebuttable presumption that an injunction is appropriate, and it is the defendant that evidently bears the burden of showing that the remedy would be adverse to the public interest.

Not only has the Federal Circuit shifted the burden of showing the need for a permanent injunction, it has effectively revised the applicable standard of review. The Federal Circuit's decision notably omits any mention of the established rule that courts of appeals examine a district court's decision to grant or deny equitable relief for abuse of discretion. See, *e.g.*, *Brotherhood of Locomotive Eng'rs* v. *Missouri-Kan.-Tex. R.R.*, 363 U.S. 528, 535 (1960); *United Fuel Gas Co.* v. *Public Serv. Comm'n*, 278 U.S. 322, 326 (1929). That "necessarily narrow" standard of review, *Sears, Roebuck & Co.* v. *Mackey*, 351 U.S. 427, 440 (1956) (Frankfurter, J., concurring in part and dissenting in part), is consonant with the flexibility and balancing that equity requires, which is precisely the standard Congress adopted in § 283. It also respects the fact that the trial court has presided over extended proceedings and is better situated to decide how to resolve the equities between the litigants. Here, the Federal Circuit reversed the district court for "not provid[ing]

any persuasive reason to believe that this case is sufficiently exceptional to justify the denial of a permanent injunction." App. 26a. The essence of the "abuse of discretion" standard is, however, not to persuade the reviewing court; it is to act within reason. See, *e.g.*, *Deitchman v. E.R. Squibb & Sons, Inc.*, 740 F.2d 556, 563 (7th Cir. 1984).

Notably, the Federal Circuit's heightened standard of review attaches only to denials of an injunction. By contrast, the Federal Circuit has held that to justify the grant of an injunction, a court need only say that it "finds no sound reason for denying the injunction." See *Metabolite Labs.*, 370 F.3d at 1372 ("While this statement [by the district court] does not explicitly set forth detailed reasons [for the issuance of an injunction], the district court properly granted the injunction because LabCorp was found to infringe.").

The Federal Circuit's reworking of equity would be justifiable had Congress authorized such a departure. For instance, this Court read the Endangered Species Act of 1973 as obligating district courts to enjoin violations. *TVA* v. *Hill*, 437 U.S. 153 (1978). However, Congress in § 283 has plainly stated that district courts are to exercise their equitable discretion. 35 U.S.C. § 283.

The Patent Act could not be clearer in this regard. Section 283 provides that courts (1) "may" grant injunctions to prevent patent violations, and that the courts have the discretion to do so (2) "in accordance with the principles of equity" and only to (3) "prevent the violation of any right secured by patent, on such terms as the court deems reasonable." *Id.* While any one of these phrases taken alone fairly signals that Congress has called for the judicious exercise of equitable discretion, the provision as a whole mandates that conclusion. Indeed, the Federal Circuit, in its early days, recognized that "[s]ection 283, *by its terms, clearly* makes the issuance of an injunction discretionary." *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984) (emphasis added), *superseded on other*

grounds by statute, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs.* v. *C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992).

> Since we hold that there is infringement, Roche is entitled to a remedy. We are not in a position, however, to decide the form of that remedy.
>
> . . . The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction. . . .
>
> . . . In short, if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language . . . .

Id. at 865-67. Given the unmistakable clarity of § 283, the Federal Circuit's *volte-face* in this case—announcing a "right to an injunction" to which all prevailing plaintiffs are "entitled"—is not an interpretation of the statute; it is a rewrite of it.

Ignoring the term "may" in the provision, the court of appeals has directed the district courts mechanically to issue permanent injunctions absent "rare" and "exceptional circumstances." Compare *Jama* v. *Immigration & Customs Enforcement*, 125 S. Ct. 694, 703 (2005) ("The word 'may' customarily connotes discretion."), with App. 26a ("[T]he general rule is that a permanent injunction *will* issue once infringement and validity have been adjudged." (emphasis added)). When Congress wanted to use more mandatory language in the Patent Act, it knew how to do so. The provision authorizing compensatory damages for infringement contains far less discretionary language. See 35 U.S.C. § 284 ("Upon finding for the claimant the court *shall* award damages adequate to compensate for the infringement" (emphasis added)). As this Court has held, "[w]here Congress includes particular language in one section of a statute but omits it in another . . . , it is generally presumed

that Congress acts intentionally and purposely in the disparate inclusion or exclusion." *Keene Corp.* v. *United States*, 508 U.S. 200, 208 (1993) (internal quotation marks omitted) (alteration and omission in original).

Nothing in this Court's jurisprudence supports the Federal Circuit's limitation on equitable powers without textual warrant. Over a series of cases, this Court has held resoundingly that it is Congress, and not a court of appeals, that may restrict a court's traditional equitable discretion.

In *Hecht Co.* v. *Bowles*, this Court considered a remedial provision of the Emergency Price Control Act of 1942. 321 U.S. 321 (1944). That section provided that upon a showing by the Price Administrator that a person was engaged or about to be engaged in a violation of the Act, "a permanent or temporary injunction, restraining order, or other order shall be granted without bond." *Id.* at 322. The court of appeals held that an injunction or other order should issue as a matter of course upon a finding of a violation. This Court reversed. It first recognized that a mandatory injunction rule conflicted with venerable principles of equitable discretion. "[I]f Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made." *Id.* at 329. Notwithstanding the use of the term "shall," this Court found that neither "the history [n]or the language of § 205(a) compel[led]" such a "major departure from that long tradition." *Id.* at 330.

Similarly, nothing in the language of the patent injunction provision or its legislative history justifies the Federal Circuit's virtual elimination of equitable discretion. Indeed, unlike in *Hecht*, § 283 does not contain a mandatory term such as "shall"; rather, as noted above, the provision contains "may" and expressly directs district courts to analyze the propriety of injunctive relief in accordance with the principles of equity.

In *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982), the district court found that the United States Navy had violated the Federal Water Pollution Control Act, but the court nevertheless declined to issue a permanent injunction, concluding that "an injunction was not necessary to ensure suitably prompt compliance by the Navy." *Id.* at 310. The First Circuit disagreed, holding that the statute obligated district courts to enjoin any violation of the Act.

This Court reversed. As in *Hecht*, this Court first noted that the extraordinary remedy of an injunction "'is not a remedy which issues as of course.'" 456 U.S. at 311 (quoting *Harrisonville* v. *W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933)).

> The grant of jurisdiction to ensure compliance with a statute hardly suggests an absolute duty to do so under any and all circumstances, and a federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law.

Id. at 313. This Court noted that Congress is "assuredly well aware" that injunctions are based on a showing of irreparable injury, the inadequacy of legal remedies, balancing of hardships to the parties, and consequences of the injunction to the public interest. *Id.* at 312-13.

Accordingly, "Congress may intervene and guide or control the exercise of the courts' discretion, but we do not lightly assume that Congress has intended to depart from established principles." *Id.* at 313. Searching for a signal that Congress had limited the courts' equitable discretion, this Court looked to the language and structure of the Act, along with its legislative history. Having found, as here, nothing that would justify the court of appeals' restriction of equitable discretion, this Court concluded that a court's traditional power to grant or deny an injunction was not foreclosed.

Similarly, in *Amoco Production Co.* v. *Village of Gambell, Alaska*, 480 U.S. 531 (1987), this Court held that the Ninth

Circuit had impermissibly constrained the equitable discretion of the district court. The case involved environmental impact issues related to § 810 of the Alaska National Interest Lands Conservation Act. The court of appeals had reversed the district court's denial of a preliminary injunction, applying a *per se* rule that bears a striking resemblance to that set forth by the Federal Circuit. Compare *People of Village of Gambell* v. *Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985) ("injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances"), with App. 28a ("the general rule [is] that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."). This Court reversed. *Amoco Prod.*, 480 U.S. at 544. As in *Romero-Barcelo*, there was "no clear indication in [the statute] that Congress intended to deny federal district courts their traditional equitable discretion . . . , nor [was this Court] compelled to infer such a limitation." *Id.*

Most recently, this Court found that the Controlled Substances Act did not limit a district court's equitable discretion. Because "the District Court's use of equitable power is not textually required by any 'clear and valid legislative command,' the court did not have to issue an injunction." *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) (citing *Hecht*, 321 U.S. at 329).

Although not directly in conflict because only the Federal Circuit hears patent appeals, it is clear that other courts of appeals would have rejected the Federal Circuit's wooden approach to injunctive relief. Those courts, following the approach of this Court in *Hecht* and its progeny, have interpreted similar statutory provisions authorizing injunctions as conferring discretion on the trial courts. For instance, under § 34 of the Lanham Act, a district court has the "power to grant injunctions, according to the principles of equity and upon such terms as the court may deem

reasonable." 15 U.S.C. § 1116(a). Courts have held that § 34 does not mandate permanent injunctions; instead they "will be granted only upon proof of the likelihood that purchasers of the product may be misled in the future." See *Burndy Corp.* v. *Teledyne Indus., Inc.*, 748 F.2d 767, 772 (2d Cir. 1984).

Similarly, the Copyright Act authorizes courts to "grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a). Emphasizing the term "may" in the provision, this Court has observed that § 502 does not require the automatic grant of an injunction. *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (holding that "that the goals of the copyright law, 'to stimulate the creation and publication of edifying matter,' are not always best served by automatically granting injunctive relief" (citation omitted)); see also *Silverstein* v. *Penguin Putnam, Inc.*, 368 F.3d 77, 84 (2d Cir.) (noting that under § 502 "injunctive relief to enforce a copyright is not compelled") (citing *Dun* v. *Lumbermen's Credit Ass'n*, 209 U.S. 20, 23-24 (1908)), *cert. denied*, 125 S. Ct. 815 (2004); *New Era Publ'ns Int'l, APS* v. *Henry Holt, Co.*, 884 F.2d 659, 661 (2d Cir. 1989) (Miner, J., concurring in denial of petition for rehearing and en banc consideration) ("All now agree that [an] injunction is not the automatic consequence of infringement and that equitable considerations always are germane to the determination of whether an injunction is appropriate."). Thus, but for the exclusive jurisdiction of the Federal Circuit, it is clear that patent defendants would not face a categorical rule imposing injunctive relief for patent violations. The principles of the above decisions apply directly here. Having no basis in the text of the patent laws, the Federal Circuit's *per se* rule, which impermissibly restricts the equitable discretion of the district courts to rare and exceptional circumstances, warrants this Court's review.

II. PROPERTY LAW DOES NOT JUSTIFY THE FEDERAL CIRCUIT'S DEPARTURE FROM § 283.

The Federal Circuit supported its general rule that a permanent injunction follows a finding of infringement by observing that "the 'right to exclude recognized in a patent is but the essence of the concept of property.'" App. 26a (quoting *Richardson*, 868 F.2d at 1246-47). But the Federal Circuit confused a right with a remedy. While the right to exclude is indeed a basic element of property law, there is no "right to an injunction" to which patentees are "entitled." *Id.* at 27a. Rather, an injunction is appropriate when it comports with the principles of equity. 35 U.S.C. § 283.

Indeed, injunctions do not invariably attend trespasses to property. While a trespass surely violates the landholder's right to exclude others, that violation can be remedied by ordinary compensatory damages or a nominal award in the absence of any substantial harm. But a single instance of a trespass certainly does not justify enjoining the trespasser from ever setting foot on the land again. See, *e.g.*, *United States* v. *Zenon*, 711 F.2d 476, 478 (1st Cir. 1983) ("A court has power to enjoin a trespass if it would cause irreparable injury, or if there are *repeated* instances of trespassing, and a single injunction might forestall a 'multiplicity' of legal actions.") (Breyer, J.); *accord* 42 Am. Jur. 2d *Injunctions* § 109 (2004) ("In considering the availability of injunction against trespasses, the courts draw a distinction between single or occasional acts of trespass and those that are continuing or repeated. Equity has, in most cases, no jurisdiction over simple acts of trespass." (footnote omitted)). This principle applies with equal force in other areas of intellectual property, including copyright and trademark. See *Silverstein*, 368 F.3d at 84 (holding that injunctive relief does not automatically follow a violation of copyright); *American Bd. of Psychiatry & Neurology, Inc.* v. *Johnson-Powell*, 129 F.3d 1, 6 (1st Cir. 1997) (upholding denial of injunction in trademark suit based on unlikelihood of future violation).

Thus, property law is not exempt from the venerable rule that injunctions are inappropriate when "there is no showing of any real or immediate threat that the plaintiff will be wronged again." *City of Los Angeles* v. *Lyons*, 461 U.S. 95, 111 (1983).

Accordingly, the right to exclude in property law is upheld by several forms of relief, including money damages. Contrary to the Federal Circuit's observation, plaintiffs are not entitled to an injunction as a matter of course. Indeed, nothing in the common law, including property law, obligates a court to award equitable relief. When this Court has recognized a right to an injunction, it has been because Congress announced a departure from traditional principles of equity using unmistakably clear language: "One would be hard pressed to find a statutory provision whose terms were any plainer . . . ." *Hill*, 437 U.S. at 173 (holding that a violation of the Endangered Species Act obligated the issuance of an injunction); see also *Romero-Barcelo*, 456 U.S. at 314 ("The purpose and language of the statute under consideration in *Hill*, not the bare fact of a statutory violation, compelled that conclusion.").

Here, nothing in the relevant provision remotely supports a right to an injunction. 35 U.S.C. § 283. Rather, Congress has clearly left the issue of the propriety of injunctive relief to the discretion of the trial court. Indeed, in the context of patent injunctions, this Court observed long ago:

> If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many cases. These are well-recognized grounds of equity jurisdiction, *especially in patent cases*, and a citation of cases is unnecessary.

Continental Paper Bag Co. v. *Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908) (emphasis added). In other words, this

Court has acknowledged that patent injunctions are no different than injunctions awarded in other contexts: they are dependent on a continuing wrong that the injunction aims to deter.

III. PROPER INTERPRETATION OF 35 U.S.C. § 283 IS A QUESTION OF EXCEPTIONAL IMPORTANCE TO THE PATENT SYSTEM AND TO THE NATION'S ECONOMY.

The Federal Circuit's erroneous interpretation of § 283 threatens to undermine the patent system's promotion of invention. Innovation, especially in the economy's high-technology sector, depends critically on patent protection that is both strong and flexible, taking into account the equities in a particular case. As noted at the outset, the patent remedies enacted by Congress reflect a balance between patent protection and overprotection. Rather than mandating permanent injunctions, Congress has expressly granted courts the discretion to enjoin companies only when necessary to prevent future violations, and only when the relief comports with equitable principles. By commanding district courts to issue permanent injunctions absent an exceptional circumstance, the Federal Circuit's rule plainly and impermissibly upsets this careful legislative balance.

It does so at tremendous cost to the Nation's economy. Permanent injunctions are extraordinarily powerful remedies, which have the potential of forcing businesses to shut down, or to pay any fee necessary to avoid that fate. The Federal Circuit's decision ignores this basic fact. The district court correctly observed that granting an injunction to MercExchange would only lead to subsequent contempt proceedings and contentious litigation with its attendant costs and waste. App. 58a-59a. In response, the Federal Circuit noted that patent cases often yield continuing disputes with or without injunctions. *Id.* at 27a. This may be true; but it assumes that a permanent injunction imposes the same costs

on a defendant as money damages. This assumption is mistaken.

Permanent injunctions undeniably raise the stakes of patent cases. Absent an injunction, any subsequent infringement action would involve a money damage remedy, including the possibility of enhanced damages. By contrast, when a court issues a permanent injunction, the continuing dispute over infringement can trigger a contempt proceeding. In such an action, the contemnor would be subject to the panoply of coercive remedial devices available to a court, including severe fines. It is not enough to say that a defendant can avoid the risk of contempt sanctions simply by not infringing. The Federal Circuit's observation that such complex patent suits often beget subsequent litigation demonstrates that it is not always clear where the metes and bounds of a patent right are to be drawn. Given this uncertainty and the potentially wasteful costs of a contempt proceeding, companies are often compelled to agree to an excessively high licensing fee.[3]

To be clear, the point is not that a patent injunction is always inappropriate; it is to emphasize that injunctions impose substantial costs on innovating companies. And the purpose of § 283 and its concomitant principles of equitable discretion is to spare a defendant these costs when it would be unfair to impose them. When however the traditional factors for equitable relief are satisfied, as is often the case in patent disputes, injunctive relief is properly granted. Thus, the discretion inherent in § 283 maintains the integrity of an

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[3] That uncertainty is often compounded by district courts that fail properly to instruct the jury as to the construction of the patent claims. Because such delegation of claim construction to a jury renders the basis for infringement essentially indeterminate, as was the case here, the problems created by the unbending use of injunctive power are exacerbated. The uncertainty ensures that further litigation about the scope of the patent is inevitable. An important hedge against these harms lies in the careful exercise of discretion whether to issue an injunction in such cases.

injunction as a device used to prevent future violation and not as a means for a plaintiff to enhance its negotiating stance. *Foster*, 492 F.2d at 1324.

These additional costs of patent litigation that result from the Federal Circuit's nearly automatic injunction rule are even more troubling given the proliferation of patent assertion firms or "non-practicing entities" ("NPEs"). Indeed, commentators in a recent report issued by the Federal Trade Commission ("FTC") identified the rise of patent suits by NPEs as a growing problem for the Nation's economy. Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 3, 38-39 (2003) ("*FTC Report*"). Specifically, NPEs "obtain and enforce patents against other firms, but either have no product or do not create or sell a product that is vulnerable to infringement countersuit by the company against which the patent is being enforced." *Id.* at 38. NPEs, such as MercExchange, can "threaten [practicing entities] with patent infringement and an injunction, which, if granted, could inflict substantial losses." *Id.* These losses do not just affect the defendant company. Indeed, one commentator in the *FTC Report* observed that costlier licenses "may result in higher prices to consumers, inefficiently low use of the affected products, and deadweight loss." *Id.* at 40-41. Ultimately, innovation may suffer because some companies will "'refrain from introducing certain products'" or, as here, forgo using certain functionalities for fear of such hold-up strategies to extract higher royalties. *Id.* at 41.

This backdrop only brings into greater relief the consequences of subjecting defendants to additional liabilities not called for by § 283 or traditional equitable principles. In light of the adverse impact on the competitive economy, this Court should use this opportunity to protect the equitable discretion Congress has conferred on the district courts.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

Nos. 03-1600, 03-1616

MERCEXCHANGE, L.L.C.,
Plaintiff-Cross Appellant,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants-Appellants.

March 16, 2005

Before MICHEL,* *Chief Judge*, CLEVENGER, and BRYSON, *Circuit Judges*.

BRYSON, *Circuit Judge*.

MercExchange, L.L.C., is the assignee of three patents, U.S. Patent Nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). MercExchange filed suit against eBay, Inc.; Half.com, Inc.; and ReturnBuy, Inc., in the United States District Court for the Eastern District of Virginia, alleging willful infringement of the '265 patent by all three defendants, willful infringement of the '176 patent by eBay and Half.com, and willful infringement of the '051 patent by eBay.

eBay owns and operates a website on the Internet that allows buyers and sellers to search for goods and to purchase them by participating in live auctions or by buying them at a

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* Paul R. Michel assumed the position of Chief Judge on December 25, 2004.

fixed price. At issue in this case is the fixed-price purchasing feature of eBay's website, which allows customers to purchase items that are listed on eBay's website for a fixed, listed price. Half.com, a wholly owned subsidiary of eBay, owns and operates an Internet website that allows users to search for goods posted on other Internet websites and to purchase those goods. At the time this action was brought, ReturnBuy owned and operated an Internet website that was hosted by the eBay website. Customers interested in purchasing goods from ReturnBuy would be directed from the ReturnBuy website to the eBay website, where items available for sale by ReturnBuy were displayed in an eBay listing.

Prior to trial, ReturnBuy filed for bankruptcy and entered into a settlement agreement with MercExchange. On motions for summary judgment by the other defendants, the district court granted in part and denied in part the motions for summary judgment that the claims of the '051 patent were invalid for an inadequate written description. The remainder of the case went to trial before a jury. At the conclusion of the trial, the jury found that eBay had willfully infringed claims 8, 10-11, 13-15, 17-18, 20-22, and 26 of the '265 patent and had induced ReturnBuy to infringe claims 1, 4, 7, and 23 of the '265 patent; that Half.com had willfully infringed claims 8, 10, 11, 13, 15, 17-18, 20, 22, and 26-29 of the '265 patent and claims 1, 5-6, 29, 31-32, and 34-39 of the '176 patent; and that neither the '265 patent nor the '176 patent was invalid. With respect to damages, the jury found eBay liable for $10.5 million for infringing the '265 patent and $5.5 million for inducing ReturnBuy to infringe the '265 patent. The jury also held Half.com liable for $19 million for infringing the '176 patent and the '265 patent.

Following the verdict, eBay and Half.com moved for judgment as a matter of law ("JMOL") that the asserted claims of the '265 patent were not infringed and were invalid. In the alternative, eBay and Half.com moved for a new trial

on the '265 patent. Half.com moved for JMOL that the asserted claims of the '176 patent were not infringed and were invalid. In the alternative, Half.com moved for a new trial on the '176 patent. In addition, eBay moved to set aside the $5.5 million award for inducing ReturnBuy to infringe the '265 patent. The district court denied the defendants' motions regarding infringement and validity, but granted eBay's motion to set aside the damages award for inducement of infringement. The court also denied MercExchange's motion for a permanent injunction, for enhanced damages, and for attorney fees.

The defendants appeal the denial of their motions for JMOL and for a new trial on the '265 and '176 patents. Because substantial evidence supports the jury's verdict regarding infringement and validity of the '265 patent, we affirm those aspects of the judgment. Because there is no substantial evidence to support the jury's verdict that eBay induced ReturnBuy to infringe the '265 patent, we reverse that aspect of the judgment. We also hold that the claims of the '176 patent are invalid for anticipation, and we therefore reverse the judgment in that regard and direct entry of judgment for Half.com on the '176 patent.

MercExchange cross-appeals, seeking reversal of the summary judgment of invalidity of the '051 patent and reversal of the district court's denial of a permanent injunction, enhanced damages, and attorney fees. MercExchange also cross-appeals the district court's order vacating the award of damages for inducement of infringement. Because the district court resolved a dispute of material fact on summary judgment and improperly denied a permanent injunction, we reverse the denial of the permanent injunction, vacate the summary judgment order, and remand for further proceedings. However, we hold that the district court did not abuse its discretion in denying enhanced damages and attorney fees.

I

A

We turn first to the district court's denial of the defendants' motion for JMOL of noninfringement with respect to the '265 patent. The '265 patent pertains to a system for selling goods through an "electronic network of consignment stores." '265 patent, col. 1, line 8. To participate in the electronic network, a consignment store must obtain a "consignment node," which uses a computer to upload and save digital images and written information about goods to be sold over the network. A prospective buyer can electronically browse and search for goods stored in the databases of consignment nodes in the electronic network. After browsing and searching, the prospective buyer can purchase any good listed on the electronic network. Upon purchasing the good, the buyer can decide either to have the good shipped or to resell the good to another buyer over the electronic network. The patent refers to the decision to buy and resell as "speculating," because the system does not require the buyer to take possession of the good before reselling it and thereby allows the buyer to resell at a price that does not take into consideration the delays and costs associated with delivery.

The asserted claims each include a "transaction processor" that is used to complete the financial transaction accompanying the sale of a good. The transaction processor limitation of claim 8 reads as follows:

> a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment means from said participant, clear said purchase request and payment means and if said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant.

The defendants contend that the district court erred in denying their motion for a JMOL of noninfringement because there was no substantial evidence from which a reasonable jury could conclude that eBay's system "transfer[red] the ownership" of a good for sale, as required by the transaction processor limitation.

As an initial matter, the defendants' arguments do not apply to claim 26 and dependent claims 27-29. The transaction processor limitation of claim 26 reads as follows:

> a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and electronic payment from said participant, transfer said purchase request to said posting terminal, and verify electronic payment information from said participant and if said electronic payment verifies then notify owner of said good for sale by modifying said data record indexed to said data record for sale to reflect said purchase request of said good for sale by said participant.

This claim language differs from the language of claim 8 in a significant way. While the transaction processor portion of claim 8 culminates in a step requiring the transaction processor to "transfer the ownership of said good for sale," the transaction processor portion of claim 26 culminates in a step requiring the transaction processor to "notify [the] owner of said good for sale . . . ." Claim 26 nowhere requires transfer of ownership of a good and does not even contain the term "ownership" or the term "transfer." The defendants argue that the transaction processor of claim 26 must be construed as limited to a transaction processor that transfers ownership by conveyance of title, but nothing in claim 26 supports that argument, and we reject it. Accordingly, we hold that the district court did not err in denying defendants' motion for JMOL with regard to noninfringement of claims 26-29. The

remainder of our analysis is focused on the construction of claim 8 and its related claims.

In its instructions to the jury, the district court provided the following interpretation of the "transfer the ownership" limitation:

> If the payment made by a participant for a good for sale clears, then the legal ownership is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good.

The defendants do not challenge the accuracy of that instruction, but they assert that the district court erred by failing to give two additional instructions. First, they contend that because the transaction processor limitation transfers the ownership of a "good for sale," the transaction processor must be capable of transferring legal title, and that the district court should have instructed the jury on the requirements for title transfer under the Uniform Commercial Code ("UCC"). Second, they contend that the district court failed to include in its jury instructions a statement from the court's pretrial claim construction order (the "*Markman* order") that transfer of ownership is "not limited to merely modifying the record—legal ownership must be transferred." The defendants argue that without that statement the jury was not informed of the requirement that legal title to the good must pass to the purchaser.

In its post-trial order, the district court addressed and rejected both of those arguments. The court ruled that the defendants were not entitled to an instruction on title transfer under the UCC, because the transfer of ownership limitation did not require the transfer of legal title pursuant to the UCC. With respect to the statements from the court's *Markman* order, the court stated that it had already provided the jury with a sufficient claim construction and was under no obli-

gation to include additional language that it used in its claim construction opinion.

We uphold the district court's interpretation of the transfer of ownership limitation and its decision not to provide the jury with additional instructions regarding that limitation. The district court's interpretation is consistent with the language of the claims and the specification of the '265 patent. Claim 8 states that a transaction processor accomplishes the "transfer [of] ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant." '265 patent, col. 21, ll. 51-54. The specification contains similar language, stating that the consignment node "transfers legal ownership of the good by changing the ownership entry in the data record in the consignment node of the good." *Id.*, col. 12, ll. 46-48.

The claim and specification do not suggest that the modification of a data record in isolation is sufficient to transfer ownership under the patent. Rather, the specification makes clear that the modification of the data record reflects that a buyer has paid for the good and that it is the payment for the good, accompanied by the data record modification, that accomplishes the transfer of legal ownership. '265 patent, col. 19, ll. 11-13.

It is also important to understand that the patented system accomplishes a transfer of ownership in the context of a "trusted network," in which the owner of the patented system "may police the network to give quality control, detect fraud and revoke the users," *id.*, col. 4, ll. 56-57, so that the network maintains a certain "quality and performance structure," *id.*, col. 4, line 60, to guarantee payment and delivery of the good. The specification indicates that the "trusted network" of the invention is part of what allows ownership to pass upon modification of the data record. In light of the specification, we agree with the district court that

within the context of the patent, transferring legal ownership is accomplished once the data record is modified.

The defendants argue that the modification of the data record by itself is not sufficient to transfer ownership, but rather that a "legal predicate" such as the UCC must be satisfied in order for the modification of the data record to have the effect of transferring ownership. In so arguing, the defendants rely on the use of the term "legal title" in the specification. The use of that term, however, does not mean that transfer of ownership must be equated with a formal transfer of title. Rather, the specification treats the term "legal title" as synonymous with the general concept of "ownership" as used in the patent. *See, e.g.*, '265 patent, col. 19, ll. 11-13 ("[W]hen a bona fide purchase price is tendered by a participant . . . or another retailer . . . the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction."). The use of the term "legal title" in the specification therefore does not add any legal requirements to the transfer of ownership referred to in the claims, and does not negate the statements in the specification and in the claim language that the transfer of ownership is accomplished upon the modification of the data and the clearing of payment in a trusted network.

We also agree with the district court that it was not necessary for the court to include excerpts from its *Markman* order in the jury instructions. A district court's *Markman* order is an explanation to the parties of the reasoning behind its claim construction. The court's analysis need not be part of the jury instructions. The defendants focus on the district court's statement in its *Markman* order that transfer of ownership is "not limited to merely modifying the record—legal ownership must be transferred," and they assert that the court's failure to convey the substance of that statement prejudiced them because it left room for MercExchange to

assert in its closing argument that "[t]here is no requirement that legal title in that formal sense be transferred." The claims, however, do not require that title be transferred pursuant to any particular steps or legal formalities, and the district court's statement in its *Markman* order does not say so. It was therefore not error for the court to omit the requested instruction.

In light of the district court's claim construction, we find that MercExchange introduced sufficient evidence to permit the jury to find that eBay's system infringed the '265 patent. MercExchange's expert, Dr. Alfred Weaver, testified that "eBay has to transfer ownership by modifying the data record." He also made clear that the modification of the data record reflected the fact that payment had been made, as he stated that "when [ ] payment comes through, [eBay and Half.com] are authorized to transfer ownership by modifying [the] data record." Moreover, while eBay asserts that its system is not "trusted," we agree with the district court's statement in its post-trial order that there was substantial evidence from which the jury could find that eBay's system was trusted, given the evidence in the record that the system provided "escrow services, conflict resolution services, insurance, payment intermediaries, authentication services, feedback forum, and the policing of the system." We therefore affirm the district court's denial of the defendants' motion for JMOL of noninfringement of the '265 patent.

B

In reviewing the defendants' motion to invalidate the '265 patent as a matter of law, the district court focused exclusively on obviousness and found that MercExchange "did indeed attack the merits of the defendants' prior art references and the failure of the defendants' witnesses to show how the prior art invalidated each of the claims of the '265 patent, despite the fact that the defendants argue otherwise." On appeal, the defendants argue that a rea-

sonable jury would necessarily have found the asserted claims to be invalid because they are anticipated or rendered obvious by a prior art reference, U.S. Patent No. 5,664,111 ("the '111 patent"). The '111 patent pertains to a system for art dealers to sell artwork by using a network of computers. The system enables users to store and retrieve images and data pertaining to the artwork and to purchase artwork corresponding to the images.

As an initial matter, MercExchange argues that because the defendants' invalidity arguments were based solely on obviousness, they have waived their right to make an invalidity argument on appeal based on anticipation. We disagree. Because "anticipation is the epitome of obviousness," *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed.Cir.1983), the defendants' obviousness arguments preserved their right to argue invalidity based on anticipation, *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1357 n. 21 (Fed.Cir.1998).

On the merits, the defendants argue that the '111 patent anticipates all of the asserted claims of the '265 patent and that MercExchange's expert, Dr. Weaver, failed to distinguish the system of the '111 patent from the system of the '265 patent. First, they assert that Dr. Weaver conceded on cross-examination that the '111 patent discloses the same transaction processor that is claimed in the '265 patent, because he admitted that the Patent and Trademark Office ("PTO") found that the '111 patent discloses a transaction processor and he did not contest the PTO's finding on that issue. However, while Dr. Weaver agreed that the PTO "would understand that [the '111 patent] discloses, among other things, transferring an ownership interest in an item," that testimony does not contradict his testimony that nothing in the '111 patent described a modification of the data record subsequent to payment verification. Thus, Dr. Weaver did not concede that the '111 patent disclosed the same transaction processor that is claimed in the '265 patent.

The defendants fail to address another distinction regarding the transaction processor limitation. In the '265 patent, a transaction processor is designed to receive payments by "entering a credit card number and expiration date or other forms of electronic payment." '265 patent, col. 5, ll. 6-8. The system claimed by the '111 patent, however, does not receive payments electronically. Rather, the system "requests that the buying dealer wire transfer funds to pay for the purchased work." '111 patent, col. 14, ll. 62-64. Instead of being able to complete a transaction on the electronic network, a buyer using the invention of the '111 patent must temporarily leave the system to make a payment before the transaction can be completed.

The defendants also contend that Dr. Weaver failed to distinguish the '265 patent from the '111 patent with regard to the posting terminal apparatus limitation and in particular the use of an identification code to prevent certain dealers from logging on to the system. The defendants argue that Dr. Weaver conceded that the '111 patent discloses the same identification code as the '265 patent. They cite Dr. Weaver's testimony on cross-examination, in which he stated that the system claimed by the '111 patent "used the terminal identification code to limit the access of certain dealers to certain pieces of art." Dr. Weaver stated on redirect examination, however, that the identification code used in the '111 system is not the same as the identification code used for terminal authorization in the posting terminal apparatus claimed in the '265 patent: "All that's happening in [the '111 patent] is that a person is identifying himself with a code. And in my mind that's not at all consistent with the way the Court defined the posting terminal apparatus code," i.e., as a code that "identifies the hardware and/or software of the posting terminal apparatus." From that testimony, a reasonable jury could infer that while the identification code in the '111 patent is directed to preventing access by a specific dealer, the identification code in the '265 patent is not dealer-

specific, but serves instead to screen out terminal apparatuses that lack particular technical requirements. The evidence thus provided a sufficient basis for the jury to conclude that the '111 patent did not anticipate the asserted claims of the '265 patent.

We also reject the defendants' argument that the '111 patent renders the asserted claims of the '265 patent obvious. Dr. Weaver testified that the patented invention differs from the '111 patent in both structure and method and that a person of ordinary skill in the art would not be motivated to modify the system covered by the '111 patent to create the system claimed in the '265 patent. For example, with regard to the posting terminal apparatus of the '265 patent, Dr. Weaver testified that one of ordinary skill in the art would not be motivated "to change or modify the dealer ID code in [the '111 patent system] to conform to the user ID protocols of the '265 patent's posting terminal apparatus," as the two are "dramatically different operations" that are used for different purposes. In light of Dr. Weaver's testimony, we agree with the district court that there was substantial evidence to support the jury's finding of nonobviousness.

C

The defendants contend that they are entitled to JMOL on the theory that eBay was not shown to have induced ReturnBuy to infringe four of the claims of the '265 patent. Claim 1 is representative of three of the asserted claims—claims 1, 4, and 7. It provides:

> 1. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, a payment clearing means for processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for

sale, a communications means for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising:

a digital image means for creating a digital image of a good for sale;

a user interface for receiving textual information from a user;

a bar code scanner;

a bar code printer;

a storage device;

a communications means for communicating with the market; and

a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer, said storage device digital image of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communications means, store said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

The only other asserted claim, claim 23, differs from claim 1 in that claim 23 recites a "digital camera for creating an image," instead of a "digital image means for creating a digital image," and it recites a "printer for printing said digital image of said good for sale."

According to 35 U.S.C. § 271(b), "whoever actively induces infringement of a patent shall be liable as an infringer." We have construed that statute to require proof of intent, although there is a "lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement." *Insituform Techs., Inc. v. CAT Contracting, Inc.*, 385 F.3d 1360, 1378 (Fed.Cir.2004), citing *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed.Cir.1990), and *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed.Cir.1990). Nevertheless, a patentee must be able to demonstrate at least that the alleged inducer had knowledge of the infringing acts in order to demonstrate either level of intent.

MercExchange asserts that the evidence was sufficient for the jury to find that eBay had induced infringement based on the testimony of ReturnBuy's former CEO and its former CTO. MercExchange points to testimony that eBay had invested $2 million in ReturnBuy and had an "observer" on ReturnBuy's board of directors; that eBay granted ReturnBuy the right to post goods in volume on the eBay system; that eBay was the "primary venue" for ReturnBuy's sales; and that eBay supplied engineers to work with ReturnBuy to facilitate the posting of goods for sale through eBay. That evidence, however, does not establish that eBay induced ReturnBuy to infringe the asserted claims.

First, the testimony regarding eBay's investment in ReturnBuy's business and its presence on ReturnBuy's board of directors does not demonstrate an intent to induce infringement, or even show that eBay had knowledge of any acts of infringement by ReturnBuy. Rather, investment and board presence merely indicate that there was a business relationship between the two companies and that eBay had a financial interest in ReturnBuy's business.

Other testimony presented by ReturnBuy's CEO and its CTO demonstrates, at best, that eBay encouraged ReturnBuy to post goods for sale on eBay's website. Posting goods for sale, however, is relevant to only one limitation of the claims, i.e., "a communications means for communicating with the market." There is no testimony or other record evidence that eBay intended to induce ReturnBuy to incorporate the other limitations of the asserted claims. For example, claim 1 requires the use of a bar code scanner and a bar code printer. The specification explains and the record shows that the bar code scanner and printer are used for tracking goods. There is nothing in the record to show that eBay had any intention to induce ReturnBuy to use bar code scanners and printers to keep track of its inventory.

Likewise, claim 23 contains limitations requiring the use of a digital camera and printer, but there is nothing in the record to demonstrate that eBay intended to induce ReturnBuy to use those devices to create the digital image used for posting. While eBay required ReturnBuy to provide a digital image and an accompanying data record for the goods that ReturnBuy wanted to sell on its website, nothing in the record shows that eBay induced ReturnBuy to use a digital camera or a printer to create either the digital image or the accompanying data record, since digital images may be created by other means, such as by scanning developed photographs. Therefore, the evidence is insufficient to demonstrate that eBay intended to induce ReturnBuy to infringe claim 23.

Accordingly, we reverse the portion of the judgment holding eBay liable for inducing ReturnBuy to infringe the '265 patent. In light of our disposition of that issue, it is unnecessary for us to address MercExchange's argument that the district court erred when it vacated the jury's award of damages on the inducement claim as duplicative.

II

We turn next to issues pertaining to the '176 patent. Each of the asserted claims of the '176 patent recites a method for searching "a plurality of electronic markets" to locate an item. That method uses a network of computers to accomplish each search. One computer receives and processes a search request from a participant and transmits that request to other computers through a software search agent. After search results are obtained, they are sent back to the participant's computer.

Following trial, the district court denied Half.com's motion for JMOL that the '176 patent was not infringed and is invalid. We reverse that ruling. Because we base our reversal on invalidity, we need not reach the issue of infringement.

A

Half.com's invalidity argument turns on the construction of the claim term "electronic market." At trial, the district court instructed the jury that the term electronic market means a "trusted network or system where participants can buy, sell, search or browse goods online." Half.com asserts that the district court's construction of electronic market requires that each of the searched websites be capable of performing four functions: buying, selling, searching, and browsing. As the basis for its interpretation of the district court's construction of that term, Half.com relies heavily on the use of the word "and" to connect the four functions in a statement from the district court's *Markman* order, in which the court said, "Based on the inventor's clear intent to allow users to buy, sell, search and browse for items in the electronic market, the court finds that the completion of a transaction between buyer and seller is not required."

In its post-trial order, the district court rejected Half.com's interpretation of the court's claim construction. The court stated that "[t]here was nothing in [the] claim construc-

tion that required the electronic market to do all four functions cited."

We agree with the district court that the patent does not require the electronic market to perform all four functions. The '176 patent is designed in part to provide a system that allows participants to speculate, i.e., to buy an item and then promptly sell it at a higher price. That is the purpose to which Half.com alludes in contending that the patent requires the electronic market to be able to handle not only buying but also selling. The specification makes clear, however, that speculation is not the only use for the system, and that there are other purposes for the system in the context of "the two-tiered market of dealer-to-dealer and retail markets." '176 patent, col. 16, ll. 28-29. One of the main purposes of the patented system is to create a double-tiered market for goods, "where the first tier is a retail price and the second tier is a wholesale or dealer to dealer price[,] and an authorized dealer has pre-approved access to the dealer-to-dealer price and may charge and display the retail price to a local store customer." *Id.*, col. 1, ll. 49-51. The specification provides that "[t]he price and reserve price fields may be used to structure the two-tiered market of dealer-to-dealer and retail markets." *Id.*, col. 16, ll. 27-29. It further provides that "[a] dealer may be provided with special logon identifications and passwords to view the reserve price . . . and reserve price indicator" that is not accessible to retail purchasers. *Id.*, col. 16, ll. 31-33. However, if a retail dealer purchases an item, he may choose to sell to other retail dealers or to retail customers. In that situation, the retail dealer may enter a retail price and a wholesale price into the system. *Id.*, col. 16, ll. 40-41. The retail price may then be displayed to the retail customer. *Id.*, col. 16, ll. 41-42.

Importantly, when a retail customer decides to participate in the system, the retail customer, after browsing and searching, has only the option of purchasing goods. The

customer is not allowed to sell goods to the retail dealer. That is, while dealers are able to act as participants in the dealer-to-dealer market by buying from and selling to other dealers, customers in the retailer-to-customer market are not allowed the same freedom. The description of the retail-to-retail market discloses two types of electronic markets—those in which a participant can buy, browse, and search, and those in which a participant can sell, browse, and search. The description of the use of the invention for speculation discloses a third type of electronic market—one in which a participant can buy and sell as well as browse and search. Accordingly, we agree with the district court's definition of electronic markets as markets in which the participants, in addition to browsing and searching, may either buy or sell or do both.

B

At trial, Half.com argued that the district court should enter a JMOL of invalidity because there was clear and convincing evidence that the asserted claims were rendered obvious in view of expert testimony and several publications, including an article by Arthur Keller. The district court rejected Half.com's argument, stating that "[w]hen the evidence on invalidity is viewed in the light most favorable to the plaintiff, the court cannot find that there was a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture."

On appeal, Half.com again contends that the asserted claims of the '176 patent were anticipated or obvious in light of the prior art. In response, MercExchange first asserts that Half.com waived its right to make any argument on appeal based on anticipation because it failed to do so at trial. As we noted earlier, however, making an invalidity argument based on obviousness preserves the right to argue anticipation on appeal. Because Half.com argued invalidity based on obvi-

ousness at trial, it has preserved its right to make an argument regarding anticipation on appeal.

On the merits, we agree with Half.com that no reasonable jury could have found the asserted claims of the '176 patent to be valid. The Keller article discloses each of the limitations of the asserted claims, and the article is enabling. The article describes a system to conduct a "cross-search of multiple catalogs" by using a network of computers hosting online catalogs. The article recognizes the problem of an online buyer's having to search multiple online catalogs, and it solves that problem by presenting a system for searching multiple online catalogs using search agents.

In addition to disclosing each of the limitations of the asserted claims, the Keller article enables a person of ordinary skill to practice its system by disclosing the communication language of the search agents, i.e., KQML and KIF ontologies. It also provides a flow chart that describes how the system operates, including how the user interfaces with the system, i.e., by using HTML/HTTP protocols, and how a search agent retrieves product data, i.e., by using SQL. Contrary to MercExchange's assertion, the Keller article that describes how to make the system is not a mere laundry list of factors.

MercExchange argues that the Keller article fails to disclose all the limitations of the '176 patent because it fails to disclose a method for searching "electronic markets" but instead searches for "catalogs." MercExchange asserts that, unlike the electronic market claimed in the '176 patent, a catalog guarantees a participant the right to browse and search, but does not guarantee the ability either to buy or to sell a particular good. However, the Keller article clearly describes a system that searches catalogs that are serviced by what the article calls "vendors," who offer products for sale. Accordingly, the Keller article contemplates a system in which a participant is able to search, browse, and buy.

Because a participant is able to buy goods in the market, that is sufficient to satisfy the "buy or sell" requirement of the asserted claims. In sum, we conclude that the Keller article discloses each limitation of the asserted claims of the '176 patent, and for that reason we hold that those claims are anticipated.

III

The defendants contend that they are entitled to a new trial because the district court erred in instructing the jury on the definition of several terms used in the '265 patent. With respect to the term "transaction processor," the defendants repeat the same argument they made in addressing the district court's denial of their motion for JMOL of noninfringement and invalidity, i.e., that they were prejudiced because the instruction on that term differed from the court's *Markman* order. As we have explained, we agree with the district court's jury instruction on that claim term, and the court was not required to instruct the jury in strict conformity with the language of its pretrial *Markman* order.

With regard to the terms "electronic markets" and "market apparatus," the defendants assert that the district court erred by failing to give jury instructions that those terms do not encompass "person-to-person" systems, but instead include only trusted networks that could transfer ownership. The defendants contend that the district court should have instructed the jury that electronic markets do not include "person-to-person" contacts. If it had done so, they argue, no reasonable jury could have found that eBay infringes, because eBay uses a "person-to-person" system.

The defendants' contention that the '265 patent prohibits buyers and sellers from having direct contact finds no support in the '265 patent. The court was therefore correct not to include that interpretation in the jury instructions. Moreover, to the extent that the defendants contend that the district

court's *Markman* order embraced their theory that the patent excluded person-to-person systems, they are incorrect. In its *Markman* order, the district court stated that "the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary." However, the court never defined what a "person-to-person" system entails. Rather, it merely determined that an electronic market must be a "trusted network or system," which is the correct interpretation.

IV

In its cross-appeal, MercExchange contests the summary judgment of invalidity as to the asserted claims of the '051 patent, and it asserts that the district court erred in construing certain terms used in that patent. MercExchange also challenges the district court's post-trial order denying MercExchange's request for a permanent injunction, enhanced damages, and attorney fees, and reducing the amount of the damages award by eliminating the $5.5 million in damages for eBay's inducement to infringe.

A

Prior to trial, the defendants asserted that the claims of the '051 patent were invalid because the written description is inadequate to support either "establish[ing] a seller's account" or "debiting [or charging] a seller's account" for a fee. Claim 12 contains both terms and is representative of the independent claims at issue with regard to the '051 patent:

> A computer-implemented method for facilitating Internet-based auctions, the method comprising:
>
> Requiring a seller to establish a seller's account, the seller's account being based at least on the seller's identity and a financial instrument associated with the seller;

> Initiating an Internet-based auction for an item offered by the seller; and
>
> Debiting the seller's account for a fee amount corresponding to a result of the auction.

The district court concluded, on summary judgment, that the reference to "establish[ing] a seller's account" was adequately supported by the written description, but that the process of "debiting the seller's account for a fee" was not. The court therefore held the asserted claims of the '051 patent invalid.

The district court construed the term "debiting a seller's account" to mean "record[ing] a debt (or charge) against a person's name or account." The court held that the written description of the patent provided support for recording a credit to a seller's account, but not for recording a debit against the seller's account. In so ruling, the court relied heavily on a statement from the written description that "[a]fter the transaction clears the charge . . . , the consignment node credits the consignment node user's commission account . . . to extract the consignment node transaction fee." '051 patent, col. 12, ll. 52-55. The court interpreted that statement as describing a process in which the consignment node takes the proceeds of a sale from the buyer, takes a commission or fee, credits the seller's account with the balance, and transfers that amount to the seller. Because the seller never owes money to the node, the court concluded that debiting never occurs in the disclosed process.

MercExchange argues that the joint declaration of its experts created a genuine issue of material fact as to the adequacy of the written description. The declaration explained that a person of ordinary skill in the art would understand the process of extracting a fee or commission, as described in the written description, to involve "debiting a seller's account." We agree. The written description refers to

the seller's agreement to allow the consignment node user to extract a consignment fee or commission following the sale. *See* '051 patent, col. 4, ll. 30-34; col. 5, ll. 37-39. It also refers to the consignment node user's creating a credit or deposit account for the participant and crediting the consignment node user's commission account to extract the commission. *See id.*, col. 12, ll. 44-46, 52-55. According to MercExchange's experts, a person of ordinary skill in the art would understand that creating a credit, as described in the specification, would require creating a corresponding debit against the proceeds due to the seller. Hence, MercExchange provided evidence that the specification would be understood by a person of skill in the art to describe a process that includes debiting the seller's account.

We thus conclude that MercExchange introduced sufficient evidence that the '051 patent was not invalid for lack of written description to create a genuine issue of material fact on that issue. Accordingly, we vacate that aspect of the judgment and remand for further proceedings.

B

In connection with its challenge to the court's order invalidating the '051 patent, MercExchange argues that the district court made three errors in construing the claims of that patent. As an initial matter, the defendants assert that this court lacks jurisdiction to hear MercExchange's appeal regarding those errors because the construction of those terms was not relevant to the final judgment. Specifically, the defendants argue that this court should address only claim construction issues pertaining to the term "debiting," because that term was the sole basis for the district court's summary judgment determination. Because we are vacating and remanding with respect to the '051 patent, we have jurisdiction to address issues that may arise on remand, as part of our statutory authority to "require such further proceedings to be had as may be just under the circumstances." 28 U.S.C.

§ 2106. It is likely that the district court will be required to deal not only with the application of the term "debiting," but also with the application of other terms used in the '051 claims. Accordingly, we elect to address MercExchange's challenges to other claim construction issues at this juncture.

First, MercExchange challenges the construction of the term "auction," asserting that the district court erred in construing the term as "a process over a trusted network, or with a trusted intermediary." MercExchange argues that the district court should not have required a "trusted" element. We disagree. The district court's construction is supported by the language of the specification, which states that the purpose of the patented system is "to provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable to an electronic market." '051 patent, col. 2, ll. 12-14.

Second, MercExchange challenges the district court's construction of the following claim limitation, which appears in claims 10 and 12:

> Requiring a seller to establish a seller's account, the seller's account being based at least on the seller's identity and a financial instrument associated with the seller.

In its *Markman* order, the district court ruled that "a seller's account must be established based at least on the seller's identity and a financial instrument associated with the seller." MercExchange disagrees with the district court's construction on the ground that the comma between the words "account" and "the" in the claim makes the "identity" and "financial instrument" features optional. If the patentee had intended the two to be mandatory, MercExchange argues, the limitation would not have used a comma and would have read: "requiring the seller to establish a seller's account based at least on the seller's identity and a financial instrument associated with the seller."

MercExchange's textual argument is unconvincing. The claim states that a seller must establish "a seller's account," and then, after the comma, the word "seller's account" is used a second time and is directly preceded by the article "the." The use of the definite article indicates that the second use of the term "seller's account" refers to the term directly preceding the comma. We uphold the district court's construction.

Finally, MercExchange asserts that the district court erred in construing the preamble phrases "automated method, performed by a computer-based auction system," and "computer-implemented method of conducting Internet-based auctions" in various claims of the '051 patent. The district court held that those phrases do not require that all steps following the preamble be performed by an automated process, as argued by MercExchange. Rather, only the steps that are claimed to occur automatically are required to be performed in that manner. MercExchange contends that the court's interpretation is inconsistent with the portion of the specification entitled "Computer Implementation," which provides different operating systems and platforms for use in a preferred embodiment of the invention. '051 patent, col. 7, line 59 through col. 8, line 9. That portion of the specification does not support MercExchange's argument, however. Various limitations of the relevant claims require actions by participants and cannot be "automatically performed via an automated process." For example, as the district court stated in its *Markman* order, claim 1 contains a limitation requiring that the computer system "receiv[e] bids on the item from participants." That step requires that participants enter their bids manually and cannot occur automatically. Likewise, one step of claim 12 requires that a seller "establish a seller's account." That step also requires that a seller manually enter relevant information into the system. Accordingly, the district court was correct in holding that not all steps had to be performed by way of an automated process.

C

MercExchange challenges the district court's refusal to enter a permanent injunction. Because the "right to exclude recognized in a patent is but the essence of the concept of property," the general rule is that a permanent injunction will issue once infringement and validity have been adjudged. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed.Cir.1989). To be sure, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed.Cir.1995); *see Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865-66 (Fed.Cir.1984) ("standards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief"). Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. *Rite-Hite Corp.*, 56 F.3d at 1547.

In this case, the district court did not provide any persuasive reason to believe this case is sufficiently-exceptional to justify the denial of a permanent injunction. In its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of "a growing concern over the issuance of business-method patents, which forced the PTO to implement a second level review policy and cause legislation to be introduced in Congress to eliminate the presumption of validity for such patents." A general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief.

Another reason the court gave for denying a permanent injunction was that the litigation in this case had been contentious and that if a permanent injunction were granted, the defendants would attempt to design around it. That strategy, in

turn, would result in "contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to the defendants' systems violates the injunction" and in "extraordinary costs to the parties, as well as considerable judicial resources."

The court's concern about the likelihood of continuing disputes over whether the defendants' subsequent actions would violate MercExchange's rights is not a sufficient basis for denying a permanent injunction. A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights.

The trial court also noted that MercExchange had made public statements regarding its willingness to license its patents, and the court justified its denial of a permanent injunction based in part on those statements. The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

Finally, we do not agree with the court that MercExchange's failure to move for a preliminary injunction militates against its right to a permanent injunction. A preliminary injunction is extraordinary relief that is available only on a special showing of need for relief *pendente lite*; a preliminary injunction and a permanent injunction "are dis-

tinct forms of equitable relief that have different prerequisites and serve entirely different purposes." *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed.Cir.1996). We therefore see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances. Accordingly, we reverse the district court's denial of MercExchange's motion for a permanent injunction.

D

MercExchange argues that the district court abused its discretion by refusing to enhance damages and award attorney fees. MercExchange asserts that the district court erred in its analysis of the factors set forth in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed.Cir.1992). The defendants respond that the district court properly considered each of the *Read* factors. We agree with the defendants. In determining that MercExchange was not entitled to enhanced damages, the district court carefully analyzed each of the *Read* factors and based its conclusions on the jury's factual findings and evidence in the record. In analyzing those factors, the court did not abuse its discretion.

The court also addressed the relevant factors that bear on whether to award attorney fees, including "the degree of culpability of the infringer," "the closeness of the question," and "litigation behavior." *Superior Fireplace Co. v. Majestic Prods. Co.*, 270 F.3d 1358, 1378 (Fed.Cir.2001), quoting *Nat'l Presto Indus., Inc. v. W. Bend Co.*, 76 F.3d 1185, 1197 (Fed.Cir.1996). Again, the court did not abuse its discretion in applying those factors in the factual context of this case. We therefore affirm the portion of the judgment denying an award of enhanced damages or attorney fees.

Each party shall bear its own costs for this appeal.

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, and REMANDED.

APPENDIX B

UNITED STATES DISTRICT COURT
E.D. VIRGINIA
Norfolk Division

No. CIV.A. 2:01CV736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants.

Aug. 6, 2003

ORDER AND OPINION

FRIEDMAN, *District Judge.*

Currently before the court are ten post-trial motions in the above-styled case; seven filed by the plaintiff and three filed by the defendants. Each motion is addressed separately below.

I. Background

On May 27, 2003, after a five-week jury trial, the jury returned a verdict finding the defendants liable for $35 million for willfully infringing the plaintiff's patents, U.S. Patent Nos. 6,085,176 ("the '176 patent") and 5,845,265 ("the '265 patent"). The court has previously discussed the nature and detail of the litigation and as such, will not reiterate it here. Following the reading of the jury's verdict, the defendants made a number of oral post-trial motions, which were to be followed up with written briefs. The plaintiff also indicated

that it would be filing various post-trial motions. The court endorsed the schedule of briefing agreed to by the parties. Accordingly, on June 12, 2003, the defendants filed three motions, including (1) Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent; (2) eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265 Patent; and (3) eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law. Likewise on June 12, 2003, the plaintiff filed the following motions: (1) Motion for Entry of a Permanent Injunction Order; (2) Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003; (3) Renewed Motion for Judgment as a Matter of Law; (4) Motion for Prejudgment and Postjudgment Interest; (5) Motion for Post-Verdict and Postjudgment Accounting; (6) Motion for Enhanced Damages Under 34 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285; and (7) Motion for Entry of Final Judgment. Responses to these motions were filed on June 23, 2003[1] and the rebuttals on June 30, 2003. As all the motions are now fully briefed, they are ripe for review.

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[1] The due date for the responses was actually June 22, 2003; however, because this fell on a Sunday, the parties had until the following Monday to file their response briefs.

II. Discussion

A. Defendants' Motions[2]

1. Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent.

In this Motion, Half.com argues that it is entitled to judgment as a matter of law ("JMOL") on noninfringement and invalidity for obviousness, and seeks a conditional new trial. While this court could go into detail as to each and every argument made by Half.com in its JMOL, the court will not do so. Half.com reargues most, if not all, of the arguments made to the jury. These arguments, while clearly persuasive in the eyes of the defendants, did not convince the jury of their theory of the case. JMOL cannot be granted against a party unless "there is no legally sufficient evidentiary basis for a reasonable jury to find for that party on that issue. . . ." Fed.R.Civ.P. 50(a). Thus, JMOL should not be granted unless

> (1) there is such a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture or (2) there is such an overwhelming amount of evidence in favor of the movant that reasonable and fair-minded men could not arrive at a verdict against him.

Jamesbury Corp. v. Litton Indus. Prods. Inc., 756 F.2d 1556, 1558 (Fed.Cir.1985). When ruling on a motion for JMOL, a judge "must consider all the evidence in a light most favorable to the non-mover, must draw reasonable inferences favorable to the non-mover, must not determine credibility of witnesses, and must not substitute its choice for that of the jury between conflicting elements in the evidence." *Perkin-*

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[2] The court notes that the defendants' Motions are written as if they are appellate briefs. In fact, nowhere in any of the Motions or accompanying Memoranda do the defendants cite the standard for judgment as a matter of law following a jury verdict.

Elmer Corp. v. Computervision Corp., 732 F.2d 888, 893 (Fed.Cir.1984) (internal citations omitted). Given this standard, the court must deny Half.com's Motion.

a. Noninfringement

First, with respect to noninfringement, the plaintiff was required to prove by a preponderance of the evidence that the defendants' systems practiced each and every claim limitation. In order to facilitate this, the plaintiff used claim charts which its expert witnesses discussed during direct examination. While the defendants put on their own experts to contradict the testimony of the plaintiff's experts, the jury was entitled to judge the credibility of these witnesses for themselves. The fact that the defendants disagree with the plaintiff's experts' conclusions is not a basis for JMOL or a new trial. Half.com makes five main arguments as to why JMOL is required for noninfringement, including (1) that no reasonable jury could have found the '176 electronic market/trusted network limitations; (2) no reasonable jury could conclude that Half.com searches a plurality of electronic markets for an item; (3) AlBooks, TextBooksX, and Buy.com are not electronic markets or trusted networks; (4) Half.com uses a noninfringing centralized database technique with FTP files; and (5) no reasonable jury could find willfulness.

With respect to the first argument, Half.com essentially reargues this court's *Markman* ruling. Specifically, Half.com contends that it is not a trusted network but rather a person-to-person system and the court erred in not providing the jurors with the entire *Markman* Opinion. The defendants have argued this person-to-person versus trusted network issue repeatedly over the course of this litigation. At no point during the two-day *Markman* hearing did either side ask the court to define person-to-person system.[3] When the court

[3] It was the defendants who, during the *Markman* hearing and in their supporting briefs, asked this court to find that the terms auction, electronic

ruled that the plaintiff's patents envisioned a trusted system and not a person-to-person system, it was not saying that eBay or Half.com was either a trusted system or a person-to-person system. These were simply terms used by the parties throughout the hearing. Moreover, when the plaintiff raised the issue in a Motion to Reconsider its Motion to Reconsider, the defendants balked and filed a sur-reply to respond to the plaintiff's attempt to reargue *Markman*. At trial, the defendants argued that it was not a trusted system, but instead, a person-to-person system. In opposition, the plaintiff offered evidence of the various trust-enhancements that eBay and Half.com incorporated into their systems. The jury clearly found that the defendants operated trusted systems and infringed the patents. The court will not now find as a matter of law that Half.com is a person-to-person and not a trusted system.

As for the next two arguments, Half.com argues that the JMOL is required because it does not search a plurality of electronic markets for a particular item, as these terms were defined by this court. Half.com maintains that in order to be an electronic market, a participant must be able to buy, sell, search, and browse for goods online. Half.com argues that because there was insufficient evidence that sites such as Buy.com and AlBooks allow participants to sell online, they cannot be electronic markets. However, Half.com is mistaken. This court's *Markman* Opinion stated that "electronic market is construed as a trusted network or system where participants can buy, sell, search *or* browse goods online." *Markman* Opin., Dkt. 207 (Oct. 18, 2002), p. 30 (emphasis added). There was nothing in this claim construction that required the electronic market to do all four functions cited. Likewise, Half.com argues that it does not search for a unique

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market, and market for goods must exist on a trusted network or system or with a trusted intermediary. The plaintiff simply asked this court to give these terms their ordinary meaning.

or particular item and thus, cannot infringe. However, as the court ruled in its *Markman* Opinion, "an item is a good." *Id.* at p. 31. The court did not define an item as a unique or particular good. The court will not now overturn a valid jury verdict based on these arguments over the *Markman* construction.

Next, Half.com reargues its position that it does not infringe the patent because it uses a centralized database technique with FTP files. The defendants strenuously argued this point at trial, and even created a somewhat lengthy animation clip of what the Half.com system does to populate its database. The defendants' expert, Dr. Maly, walked the jury through this animation in great detail. However, it was the jury's right to accept this evidence or not. Clearly it did not. Instead, the jury relied on the deposition testimony of Mr. Balijepalli, as well as the expert testimony of Dr. Frieder. The fact that "there may have been trial evidence favorable to both sides . . . is simply irrelevant." *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 621 (Fed.Cir.1985). This does not provide a proper basis for the court to enter JMOL in favor of Half.com.

The final point raised by Half.com, which is equally applicable to the defendants' JMOL for the '265 patent, *see infra*, is Half.com's insistence that the jury erred in finding it willfully infringed the '176 patent. The plaintiff contends that because the defendants knew of its patents since at least June of 2000, and failed to obtain an opinion of counsel or conduct a patent clearing investigation, they cannot argue a good-faith belief that the patent was invalid or not infringed. The defendants, on the other hand, state that the Federal Circuit has held that the failure to obtain an opinion of counsel does not mandate a finding of willfulness. *See, e.g., Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828-29 (Fed.Cir.1992), *abrogated on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed.Cir.1995); *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565, 1579 (Fed.Cir.1986).

Moreover, the defendants argue that they were not aware that the plaintiff believed they were infringing the patents at issue based on statements made by the inventor. However, the defendants made similar arguments to the jury, who apparently did not find that they outweighed the plaintiff's evidence on willfulness. There is no dispute that the defendants failed to obtain an opinion of counsel and conduct a patent clearance investigation. Furthermore, the defendants repeatedly argued at trial that they could have designed around these patents for less than $15,000. The fact that this simple, inexpensive process would have saved the time, expense, and necessity for this litigation and yet was not done by the defendants, also weighs against them. The fact that the court ruled that the sufficiency of the evidence of willfulness was "a close call" in the defendants' first Rule 50 motion is of no consequence here. In that ruling, the court stated that "based on the defendants' notice of the patents and their duty to avoid infringement, the lack of a patent clearing policy, and the lack of a written opinion of counsel, there is sufficient evidence to allow a jury to determine willfulness." The jury apparently found the plaintiff's evidence on willfulness clear and convincing.[4] Therefore, this argument by Half.com must be denied.

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[4] Furthermore, the defendants argue in their response to the plaintiff's Motion for Enhanced Damages, *see infra*, that because the jury found the defendants' indirect infringement of the '176 patent willful, despite not finding the defendants to have indirectly infringed this patent, warrants judgment as a matter of law for the defendants on all willful determinations. The defendants maintain that the jurors were confused as to the law on willfulness and as such, their verdict on willfulness cannot be upheld. This court disagrees. The jury was confronted with a lengthy and complex 22-page verdict form, consisting of 26 questions (with 222 subquestions). The fact that an inconsistency arose in this manner does not mean that the jurors did not understand the law as this court instructed. While the court finds that there is no willfulness on the indirect infringement of the '176 patent claims, the court will not make such a finding on the remainder of the claims.

b. Invalidity

Second, Half.com cites three main reasons why its Motion for JMOL should be granted with respect to invalidity of the '176 patent claims. These include (1) the plaintiff blocked the date of invention instructions; (2) the plaintiff misstated the motivation to modify standard; and (3) the evidence presented with respect to obviousness was clear and convincing.

With respect to the date of invention, the court has to admit its surprise at this argument, given the relative lack of objection to the jury instruction on this issue. The court told the attorneys that it would modify the Federal Circuit Bar Association Model Patent Jury Instructions for use in this case.[5] A few days prior to the charging conference, the court gave the attorneys copies of the final set of jury instructions. At the charging conference, the parties were able to raise any objections to this set of instructions. The defendants did not state that the court erroneously omitted the date of invention paragraph from the model instructions at this time or any time prior to this Motion. Rather, the defendants offered another instruction on corroboration of the date of invention, which this court found was not adequately supported by the caselaw cited. Moreover, there were numerous instances in the jury instructions relating to prior art where the date of invention is discussed with the jury. There is no indication that the jury rejected the defendants' invalidity defense based on the date of the invention, as neither side asked for this question to be offered on the verdict form. In fact, the defendants' objected to the plaintiff's proposed verdict form where they sought a list of the prior art references that the jury considered for each invalidity allegation. The court agreed with the defendants and removed these questions from the verdict form. The defendants now appear to be seeking to benefit from the court's

[5] The court notes that it relied primarily on the Federal Circuit Bar Association Model Patent Jury Instructions, which did not contain an instruction on corroboration of the date of invention.

ruling in their favor on this issue. The fact that the jury did not receive an instruction on the corroboration of the date of invention does not, in and of itself, require that JMOL be granted. Therefore, this argument does not mandate JMOL for Half.com.

As to the second ground for JMOL of obviousness, Half.com argues that the plaintiff mischaracterized the motivation to modify standard and misled the jury to believe that (1) the nature of the problem to be solved could not provide the motivation to modify, and (2) the prior art inventor must himself recognize the motive to modify. Half.com relies on *SIBIA Neurosciences, Inc. v. Cadus Pharmaceutical Corp.*, 225 F.3d 1349, 1358 (Fed.Cir.2000). Specifically, Half.com contends that the following statement given by the plaintiff "urged the jury to commit plain error:"

> What does it mean for one skilled in the art to say that they're motivated to combine two or more, in some cases, in this case four different prior art references to render a claim invalid? It simply means this: That someone skilled in the art would be looking to solve a problem that is not solved by the current invention. You saw Mr. Nahan talk about his invention. As I saw that video, I didn't see that he thought there was any problem remaining to be solved. He thought that he had solved the problem that he was trying to solve. He liked the idea that sellers could back out of a transaction, that there was no finality. He liked the idea that you had to go offline to consummate that transaction. . . . Here you had an invention that was essentially designed to do exactly what it was designed to do. And so there's no motivation there.

Dkt. 556, p. 19 (quoting Trial Transcript 3607:21-3608-16). In *SIBIA*, the Federal Circuit rejected the patentee's argument that the prior art inventors were thinking about an entirely different application and that the motivation to combine was

not on the minds of the prior art inventors. 225 F.3d at 1358. However, the plaintiff's statement was made during closing arguments, which the court instructed were not evidence. The court provided the jury with an instruction on motivation. *See* Jury Instruction No. 54 ("In deciding whether to combine what is described in various items of prior art, you should keep in mind that there must be some motivation or suggestion for a person of ordinary skill in the field of the invention to make the combination covered by the patent claims. For each claim, you should also consider whether or not any of the prior art items "teach away" from the invention covered by the patent claim. The question to be answered is: Would someone reading the prior art be discouraged from following the path taken by the inventor?"). The court must assume that the jury follows the instructions they are given. Half.com has no evidence that the jury failed to consider this instruction but instead relied on comments made by the plaintiff during closing arguments. As such, there is no grounds for a JMOL or a new trial.

Finally, Half.com posits that the evidence of invalidity was clear and convincing. However, the jury did not agree. The jury heard evidence from all the expert witnesses in this case and was given volumes of documents to review during their deliberations. They clearly did not find the defendants proved invalidity by clear and convincing evidence. When the evidence on invalidity is viewed in the light most favorable to the plaintiff, the court cannot find that there was a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture, or that there was such an overwhelming amount of evidence in favor of Half.com that reasonable and fair-minded jurors could not arrive at a verdict against it. Therefore, Half.com's Motion for JMOL and/or a New Trial on invalidity is denied.

2. eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265 Patent.

In the defendants' second Motion, they again argue that JMOL is required of noninfringement and invalidity of the '265 patent, and that a new trial is compelled based on inadmissible evidence and misleading arguments presented to the jury by the plaintiff. Using the standard set forth above, the court will address some of the issues raised by the defendants.

a. Noninfringement

Similar to above, the defendants rely on a number of general reasons why JMOL is necessitated for noninfringement of the '265 patent. First, the defendants argue that the plaintiff blocked the jury from full consideration of the *Markman* Opinion. As discussed above, the jury was provided with the claims constructions as determined by this court. The jury was not given, over objection by the defendants, the analysis of the court in arriving at those claims constructions. The defendants somehow believe that the court ruled they were person-to-person systems. The court did no such thing. In fact, when the defendants filed their post-*Markman* motions for summary judgment, the court denied the one pertaining to the '265 patent because it held that one of the key issues that remained in dispute was "whether eBay is a trusted network." Order and Opinion, Feb. 14, 2003, p. 5. For the defendants to now argue that they were surprised or unprepared for trial on this issue is somewhat disingenuous. The court never explicitly defined what a trusted system must have versus what a person-to-person system encompasses. The plaintiff offered a great amount of evidence to prove to the jury that the defendants are indeed trusted networks, including escrow services, conflict resolution services, insurance, payment intermediaries, authentication services, feedback forum, and the policing of the

system. This evidence was certainly sufficient to meet the plaintiff's burden by a preponderance of the evidence. Therefore, the defendants' argument on this ground must fail.

The defendants also argue that the court failed in providing the jury with the specific provision of the UCC on the legal issue of transfer of ownership. This issue was sprung on Dr. Weaver during cross-examination and was never presented to the court before trial as a triable issue. Never in the *Markman* Opinion, or any other opinion issued by this court in this case, did the court hold that transfer of ownership implicated the UCC. It was not an error requiring JMOL for the court to have refused this jury instruction. The defendants make a number of other arguments regarding whether or not their systems perform the functions of the '265 patent, including notifying the owner and authorizing the posting terminal. However, these same arguments were made to the jury. The plaintiff offered counter evidence to dispute the defendants' contentions, such as the fact that the defendants place "hashed cookies" on the user's terminal. The fact that the jury did not agree with the defendants' evidence does not necessitate a JMOL. This court cannot say, as a matter of law, that no reasonable jury could have ruled against the defendants. As such, the defendants' motion for JMOL on Noninfringement is denied.[6]

b. Invalidity

The defendants again argue that JMOL is required because the court failed to give a date of invention instruction to the jury. As the court addressed this issue with respect to the invalidity argument for the '176 patent, *see supra* section II.A.1.b, the court will not reiterate it here. In addition to the arguments made above, the court notes that the plaintiff did

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[6] The defendants also argue that JMOL of willfulness is required. The court addressed this issue when it was raised in the '176 motion and will not repeat that reasoning here.

indeed attack the merits of the defendants' prior art references and the failure of the defendants' witnesses to show how the prior art invalidated each of the claims of the '265 patent, despite the fact that the defendants argue otherwise. The defendants had the burden to prove invalidity by clear and convincing evidence. The court believes that the jury was entirely reasonable in finding that the defendants did not meet their burden, with or without the date of invention instruction. Therefore, the court denies the defendants' JMOL on invalidity.[7]

c. New Trial

The defendants recite a laundry list of 17 reasons why this court should grant them a new trial. *See* Dkt. 557, pp. 2-3. There was little, if any, argument on the majority of these reasons in the defendants' supporting memorandum, and the plaintiff responded with just as little argument in opposition. Therefore, the court will not spend considerable time addressing them. After full consideration of the reasons, despite the essentially non-existent supporting argument, the court denies the defendants' request.

3. eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law.

In their final motion, the defendants renew the motion made during trial to strike the testimony of Messrs. Troxel

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[7] The defendants also argue that the plaintiff misstated the law on the defendants' section 112 defense which likely caused the jury to disregard Dr. Crocker's testimony because he had never looked at the '265 patent claims. However, this is pure speculation, as the jury deliberated for three days on the numerous issues put to them in the special verdict form. It is very possible that the jury simply didn't find Dr. Crocker credible, or felt that his testimony didn't help the defendants meet their burden by clear and convincing evidence. Therefore, JMOL on this ground is similarly denied.

and Evans as it does not meet the standard set forth in Federal Rule of Evidence 702 or *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993). In addition, based on a number of other errors and inconsistencies with respect to the jury's damages award, the defendants argue that the court should order a new trial on damages. The court will address each of the grounds of this Motion in turn.

a. Expert Testimony

The defendants argue that these experts used gross merchandise sales ("GMS") as the royalty base in computing the reasonable royalty due to the plaintiff for the defendants' infringement of the patents at issue. Specifically, the defendants contend that the court should strike the testimony and grant either a new trial or judgment as a matter of law because Mr. Evans and Mr. Troxel admitted that they (1) had never used GMS as a royalty base before; (2) had never seen GMS used as a base before; (3) conducted no studies to determine the reliability of GMS; (4) were not aware of any studies testing GMS reliability; and (5) did not know whether $2 billion worth of goods listed on eBay and assumed sold were included in GMS. The plaintiff counters, arguing that the experts properly applied the *Georgia-Pacific* factors to compute the reasonable royalty and the defendants are merely attacking the experts' factual conclusions rather than their methodology. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y.1970), *modified and affirmed*, 446 F.2d 295 (2d Cir.1971).

Rule 702 provides that expert testimony is admissible only if "(1) the testimony is based upon sufficient facts or data; (2) the testimony is the product of reliable principles and methods; and (3) the witness has applied principles and methodology reliably to the facts of the case." Fed.R.Evid. 702; *see also Daubert*, 509 U.S. at 591, 113 S.Ct. 2786. In *Daubert*, the Court charged trial judges with the respons-

ibility of acting as gatekeepers to exclude unreliable expert testimony. *Daubert* set forth a non-exclusive checklist for courts to use in assessing the reliability of expert testimony, including:

(1) whether the expert's technique or theory can be or has been tested—that is, whether the expert's theory can be challenged in some objective sense, or whether it is instead simply a subjective, conclusory approach that cannot reasonably be assessed for reliability;

(2) whether the technique or theory has been subject to peer review and publication;

(3) the known or potential rate of error of the technique or theory when applied;

(4) the existence and maintenance of standards and controls; and

(5) whether the technique or theory has been generally accepted in the scientific community.

509 U.S. at 592-95, 113 S.Ct. 2786. The Court later emphasized that the *Daubert* inquiry is "a flexible one" and that the analysis will depend on the nature of the issue, the witness's expertise, and the subject of the testimony. *Kumho Tire Co. v. Carmichael,* 526 U.S. 137, 150, 119 S.Ct. 1167, 143 L.Ed.2d 238 (1999). The Court also explained that the principles of *Daubert* apply not only to scientific testimony, but to all expert testimony. *Id.* at 149, 119 S.Ct. 1167. Rule 702 was amended in 2000 to comport with the principles set forth in *Daubert* and *Kumho Tire.*[8]

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[8] The Advisory Committee Notes to Rule 702 list some other factors courts have considered relevant in determining whether the expert testimony is sufficiently reliable. These include:

(1) Whether experts are proposing to testify about matters growing naturally and directly out of research they have conducted in-

As the court stated during trial when this issue arose, the first prong of Rule 702 requires that the testimony is based upon sufficient facts or data. In this case, Mr. Evans[9] stated that he chose GMS as a royalty base because, based on his expertise in the area of patent licensing, it was the most reliable figure, it was used in eBay's own financial reports, it was used in other MercExchange license agreements,[10] and, in his opinion, it was more reliable in the e-commerce field. His reasons for using this basis, as well as his reasons for not using another basis such as revenue, were challenged on cross-examination by the defendants. *See Daubert,* 509 U.S. at 595, 113 S.Ct. 2786 ("[v]igorous cross-examination, presentation of contrary evidence, and careful instruction on

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dependent of the litigation, or whether they have developed their opinions expressly for purposes of testifying.

(2) Whether the expert has unjustifiably extrapolated from an accepted premise to an unfounded conclusion. *See General Elec. Co. v. Joiner,* 522 U.S. 136, 146, 118 S.Ct. 512, 139 L.Ed.2d 508 (1997).

(3) Whether the expert has adequately accounted for obvious alternative explanations. *See Claar v. Burlington N.R.R.,* 29 F.3d 499 (9th Cir.1994).

(4) Whether the expert is being as careful as he would be in his regular professional work outside his paid litigation consulting.

(5) Whether the field of expertise claimed by the expert is known to reach reliable results for the type of opinion the expert would give.

[9] It was Mr. Evans who determined that GMS was an appropriate royalty base in this case. Mr. Troxel simply applied that to the defendants' specific financial information. Therefore, the court will focus on Mr. Evans' testimony with respect to this Motion.

[10] While it is true that GMS was not used in the plaintiff's other licensing agreements, as was discovered during the cross-examination of Mr. Evans and Mr. Troxel, the jury was able to consider the other factors given by Mr. Evans as to why he used GMS. They were entitled to give whatever weight they thought appropriate to this decision.

the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence."). Thus, his decision to use GMS was able to be challenged by the defendants. What remained was whether the jurors found his reasons for using GMS credible.

The second prong of Rule 702 requires that the testimony is the product of reliable principles and methods. The Federal Circuit has repeatedly "endorsed the conceptual framework of a hypothetical negotiation between patentee and infringer as a means for determining a reasonable royalty." *Micro Chemical, Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1393 (Fed.Cir. 2003)[11] (quoting *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384 (Fed.Cir.2001)). While the defendants disagree that during such a hypothetical negotiation they would have agreed to any royalty based on GMS as opposed to revenue, this was a question of fact for the jury to decide. As the Advisory Committee notes, *Daubert* was "not intended to serve as a replacement for the adversary system." Finally, the third prong of 702 requires that the witness has applied principles and methodology

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[11] In *Micro Chemical*, the Federal Circuit was asked to decide whether the testimony of a damages expert should have been excluded based on the use of an unreliable method to obtain a reasonable royalty. 317 F.3d at 1393. In affirming the district court's decision to allow the expert to testify, the Federal Circuit stated that the expert had "properly applied the accepted *Georgia-Pacific* methodology to [the plaintiff's] version of the disputed facts, explaining the effect each factor would have on a negotiated royalty." *Id.* While the defendants continued to argue that the court should not have permitted the expert to consider sales of the defendants' other products in arriving at a reasonable royalty, the court held that because the expert properly utilized the *Georgia-Pacific* test in arriving at his opinions, his analysis as to the reasonable royalty was a "factual issue" and "not grounds for excluding his testimony under Rule 702." *Id.* Likewise here, Mr. Evans explained why he chose to use GMS rather than revenue as a royalty base in arriving at his reasonable royalty. While the defendants may disagree with his theory of damages, it was a factual issue for the jury to decide.

reliably to the facts of the case. As stated above, Mr. Evans chose GMS based on the analysis of the defendants' financial reports. It was his opinion that in this case, GMS was a more reliable and accurate number than revenue, especially since eBay itself uses GMS to calculate its commission for the sale of the items. While it may be true that the experts were unsure whether GMS included failed transactions, the defendants were given a full opportunity to cross-examine them on this issue. The jury clearly chose to believe that the experts were reasonable in choosing GMS.

Furthermore, Mr. Evans has negotiated numerous license agreements and has testified as an expert in many other disputes where a reasonable royalty is utilized. As stated in the Advisory Committee Notes, "[i]f the witness is relying solely or primarily on experience, then the witness must explain how that experience leads to the conclusion reached, why that experience is a sufficient basis for the opinion, and how that experience is reliably applied to the facts." Thus, while Mr. Evans' experience in and of itself is insufficient to form a reliable opinion, his experience along with his explanations as to how he applied his experience to the facts of this case is sufficient to meet the *Daubert* test. For example, while Mr. Evans himself may never have used GMS in calculating a reasonable royalty, his reasons for choosing GMS in this case appear to meet the threshold level required under *Daubert*. The defendants' argument that GMS is not a common royalty base is not sufficient to exclude the testimony under *Daubert*. *See generally Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 43 F.3d 1311, 1318 (9th Cir.1995) (scientific experts might be permitted to testify if they could show that the methods they used were also employed by "a recognized minority of scientists in their field."). In addition, whether or not Mr. Evans or Mr. Troxel performed studies or surveys to determine whether the use of GMS was appropriate in this case is insufficient to exclude the testimony.

Therefore, because the defendants were able to cross-examine Mr. Evans and Mr. Troxel on their methods and principles in arriving at their opinions, what remained was a question of fact for the jury to decide. The defendants offered the testimony of Mr. Weinstein to counter the plaintiff's experts. Mr. Weinstein offered four alternative amounts for damages, including (1) $14,500, which reflects the design-around cost;[12] (2) $50,000, which reflects the valuation of the plaintiff-company for tax purposes; (3) $2.5 million, which amounts to the valuation of the plaintiff-company in a stock exchange with Aden Enterprises; and (4) $2.4 million, which utilizes the royalty rate determined by Mr. Evans and applies it to the defendants' revenue as opposed to GMS. The jury was entitled to weigh the experts' credibility and determine whether the use of GMS was appropriate in this case. This does not represent testimony that was so unreliable as to warrant its exclusion by the court. Therefore, the defendants' Renewed Motion to Strike the Testimony is denied.

b. Resubmission of Verdict Form to Jury

When the jury initially came back with a verdict, the court reviewed it and noted an inconsistency. Specifically, the jury found no indirect infringement of the '176 patent by either defendant, and yet, awarded a total of $5 million in damages for this infringement. The court informed the jury of this inconsistency in general terms, referring only to the page numbers relating to the inconsistency. The parties did not object to this at the time. Shortly thereafter, the jury sent a note to the court, asking if they could adjust the other

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[12] Mr. Weinstein testified that eBay could design around the claims of the '265 patent in 200 hours, and that Half.com could design around the claims of the '265 patent in 100 hours and the claims of the '176 patent in 100 hours. Tr. 2525:12-14. When multiplied by the cost per hour that would have been incurred, Mr. Weinstein arrived at a total of $14,500 for the defendants to completely design around the claims of the two patents at issue. Tr. 2525:15-19.

damages figures after curing the inconsistency. The court permitted them to do this. Again, there were no objections from either party at this time. When the jury finally returned with the verdict, they had increased the damages for the direct infringement of the '265 patent by $5 million. The defendants now argue that the court erred by resubmitting the verdict form to the jury to be amended. The defendants rely on the Fourth Circuit case of *McCollum v. Stahl*, 579 F.2d 869 (4th Cir.1978).

In *McCollum*, the plaintiffs sued the defendant for alleged violations of their constitutional rights pursuant to 42 U.S.C. § 1983. *Id.* at 869. When the jury returned their verdict, they found that the defendant was not liable for his actions; however, they awarded punitive damages for his malicious conduct. *Id.* at 870. Noting the inconsistency, the court resubmitted the verdict to the jury with the instructions that if they answered no to the liability question, they were not to answer any further questions. *Id.* Upon returning, the jurors found the defendant liable for his actions and awarded damages. *Id.* at 871. On appeal, the Fourth Circuit held that because the special verdict was prepared pursuant to Federal Rule of Civil Procedure 49(a), "the resubmission was procedurally impermissible." *Id.* The court held that "the remand of the questions to the jury was tantamount, in its effect, to a direction to the jury to find liability in order to warrant the award of damages." *Id.*

However, this case can be distinguished from *McCollum*. First, when the court resubmitted the verdict form to the jury, the court did not further instruct the jury as to how to complete the form. Rather, the court merely noted the pages that the errors were on and told the jurors to read the instructions therein carefully. Other courts have noted their approval of resubmitting a verdict form to the jury where errors were made despite explicit instructions on the form. *See, e.g., Duk v. MGM Grand Hotel, Inc.*, 320 F.3d 1052,

1057 (9th Cir.2003). Second, the jury did not change their finding on liability in order to award damages. This circuit has distinguished *McCollum* in instances where "[r]esubmission did not direct the jury to find liability." *Taylor v. Home Ins. Co.*, 777 F.2d 849, 858 (4th Cir.1985); *see also Hafner v. Brown*, 983 F.2d 570, 575 (4th Cir.1992) ("If the district judge concludes that an inconsistent verdict reflects jury confusion or uncertainty, he or she has the duty to clarify the law governing the case and resubmit the verdict for a jury decision."). Therefore, this court finds that the resubmission of the verdict to clarify an inconsistent verdict was not erroneous. The defendants' Motion for a New Trial on this ground is denied.

c. Damage Award in Excess of Reasonable Royalty

The defendants also argue that because damages awarded were greater than that found to be reasonable by these experts, that the damages are not supported by substantial evidence. For example, the defendants note that the plaintiff asked for $3,960,518 for Half.com's direct infringement of the '265 patent, relying on the experts' opinions as to a reasonable royalty. However, the jury awarded the plaintiff $14.5 million in damages for Half.com's direct infringement of the '265 patent. The defendants point out that this is 3.5 times the amount that the plaintiff's experts said was appropriate and reasonable. In total, the defendants maintain that the jury verdict represents damages that are $15,824,834 over the amount the plaintiff's experts found reasonable.

Once patent infringement is found, a jury may award a patentee "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. The Federal Circuit has held that "[t]he objective of the reasonable royalty calculation is to determine the amount necessary to adequately compensate for an infringement." *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1109 (Fed.Cir.1996).

In other words, the reasonable royalty represents the floor to damages, not the ceiling. "A reasonable royalty calculation envisions and ascertains the results of a hypothetical negotiation between the patentee and the infringer at the time before the infringing activity began." *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 869 (Fed.Cir.2003) (citing *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed.Cir.2002)). "This 'hypothetical negotiation' is often referred to as a willing licensor and licensee negotiation. However, . . . this is an 'absurd' characterization of the determination when the parties were previously unable to come to an agreement, i.e., were not 'willing' . . . ." *Maxwell*, 86 F.3d at 1109 (citing *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed.Cir.1995)). As a result of this reality,

> the fact finder may consider additional factors to assist in the determination of adequate compensation for the infringement. These factors include royalties received by the patentee for the licensing of the patent in suit, opinion testimony of qualified experts, the patentee's relationship with the infringer, and other factors that might warrant higher damages. The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant.

Id. at 1109-1110 (citing *Georgia-Pacific*, 318 F.Supp. at 1120).

Based on this, the court finds that the jury was entitled to calculate an amount they believed compensated the plaintiff for the defendants' infringement. That this amount is greater than the plaintiff asked for is of no consequence. The jury was entitled to consider these other factors in determining what amount of damages would compensate the plaintiff. *See Maxwell*, 86 F.3d at 1110 (finding that the jury was entitled to award additional damages to adequately compensate the plaintiff). As such, the defendants' Motion for a New Trial on this ground is denied.

d. ReturnBuy Issues: Double Counting and Post-License Damages

Finally, the defendants argue that the damages awarded based on eBay's inducement of ReturnBuy's infringement are improper for two reasons. First, the defendants contend that because ReturnBuy is a "power seller" on eBay, all of their GMS are included in eBay's GMS calculation and thus, awarding separate damages amounts to double counting. The plaintiff argues that the separate damages awarded based on eBay's inducement of ReturnBuy are appropriate because ReturnBuy (1) expected a commission of between 20% and 50% of their fixed-price GMS, and (2) was a power seller with direct access to eBay's web site which allowed it to post goods for sale in bulk on eBay. However, these arguments would only prevail if revenue were used as the royalty base because ReturnBuy would have had a separate revenue figure. As stated above, GMS was used and as such, the plaintiff cannot now receive damages on the same act of infringement. ReturnBuy lists goods on eBay and therefore, those goods are incorporated into eBay's GMS. To allow Mr. Troxel to then compute what ReturnBuy's GMS may have been (as no actual number was available) and assess more damages on that GMS is improper. Therefore, the damages awarded to the plaintiff for eBay's inducement of ReturnBuy to infringe the '265 patent, $5.5 million, will be stricken from the jury's damage award.

The defendants also argue that because ReturnBuy entered into a license agreement with the plaintiff in December of 2002, yet Mr. Troxel included damages up to March of 2003, the plaintiff should not be entitled to those additional three months of damages. However, as the plaintiff pointed out, neither party asked the court for a special verdict form broken down by months of infringement. As such, the defendants have waived this argument.

B. Plaintiff's Motions

1. Motion for Entry of a Permanent Injunction Order.

In the plaintiff's first motion, it seeks a permanent injunction order to prevent the defendants from further infringing on its patents. The plaintiff has prepared a Proposed Permanent Injunction Order ("Proposed Order"), which it has supplied to the court. The defendants object to the grant of a permanent injunction order in general, and raise specific objections to the plaintiff's Proposed Order as being vague and overly broad. The defendants also note that if the court grants an injunction, they reserve the right to move to stay such an injunction pending appeal.

Once infringement and validity of the patents have been established, a district court is authorized to grant a permanent injunction against the infringer. 35 U.S.C. § 283. In fact, the grant of injunctive relief against the infringer is considered the norm; however, the decision to grant or deny injunctive relief remains within the discretion of the trial judge. *See W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed.Cir.1988); *see also Odetics, Inc. v. Storage Tech. Corp.*, 14 F.Supp.2d 785, 788 (E.D.Va.1998), *aff'd*, 185 F.3d 1259 (Fed.Cir.1999) ("The issuance of an injunction following a verdict of infringement is not automatic; however, district courts must instead follow the traditional equitable principles that guide the decision whether to enjoin certain conduct."). The Federal Circuit has indicated that "an injunction should issue once infringement has been established unless there is a sufficient reason for denying it." *W.L. Gore*, 842 F.2d at 1281. The rationale behind this stems from the concept of the property rights of patent holders. "It is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. The right to exclude recognized in a patent is but the essence of the concept of property." *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47

(Fed.Cir.1989). "Issuance of injunctive relief against [the defendants] is governed by traditional equitable principles, which require consideration of (i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor." *Odetics,* 14 F.Supp.2d at 794 (citing *Weinberger v. Romero-Barcelo,* 456 U.S. 305, 312, 102 S.Ct. 1798, 72 L.Ed.2d 91 (1982)).

a. Irreparable Harm

The plaintiff argues that it will suffer irreparable harm if an injunction does not issue as the defendants will continue to infringe on its property rights. Courts have held that when, as here, "validity and continuing infringement have been clearly established . . . immediate irreparable harm is presumed." *Odetics,* 14 F.Supp.2d at 794 (quoting *Smith Int'l Inc. v. Hughes Tool Co.,* 718 F.2d 1573, 1581 (Fed.Cir.1983)). Notwithstanding the presumption of irreparable harm, the plaintiff notes a number of specific ways in which it will be harmed if the defendants are not enjoined from their infringing conduct. These include being "deprived of its ability to either pursue the development of its inventions under the protection of its patent rights, or to have the exclusive right to license its patented technology to others on the most beneficial terms available." Dkt. 562, p. 6.

The defendants, on the other hand, maintain that infringement and validity were not "clearly established" as the court indicated it had some reservations as to the plaintiff's case when it ruled upon the defendants' initial Rule 50 Motion. However, as courts have repeatedly held, "a clear showing of validity and infringement is satisfied where those issues have been tried and the fact-finder has determined that the patent in question was infringed and is not invalid." *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.,* 106

F.Supp.2d 696, 701(D.N.J.2000) (citing *Polymer Tech., Inc. v. Bridwell*, 103 F.3d 970, 973 (Fed.Cir.1996) and *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir.1994)). In this case, the jury has spoken and the court has denied the defendants' motions for judgment as a matter of law and for a new trial. Therefore, the clear showing of validity and infringement has been met.

However, as the defendants point out, this merely establishes a presumption of irreparable harm. This presumption may be rebutted by factors such as whether the infringer has ceased its infringing activity, whether the patentee has granted licenses in the past such that it can be compensated for the infringement, and whether the patentee delayed in bringing the lawsuit. *Id.* at 701-702 (citing *Polymer*, 103 F.3d at 974). In order to rebut this presumption, the defendants first argue that they do not practice the infringing acts of the '176 and '265 patents. However, as this court previously stated, a jury has spoken on this issue and thus, this argument is not persuasive. The defendants next argue that there was evidence adduced at trial proving that the plaintiff is willing to license or sell its patents. On this point, the defendants are correct. Substantial evidence was adduced at trial showing that the plaintiff does not practice its inventions and exists merely to license its patented technology to others. Indeed, the plaintiff has made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.[13] The Federal Circuit has observed that

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[13] *See, e.g.*, Article, Patent Suit Could Sting eBay, Sept. 5, 2002 at *http://news.com.com/2100-1017-956638.html* ("We are seeking reasonable royalties as permitted under the patent laws. It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner.") (quoting Scott Robinson, attorney for MercExchange); Article, eBay-Contested MercExchange Patents are on the Block, May 30, 2003 at *http://www.auctionbytes.com/cab/abn/y03/m05/i30/s01* ("[I]t is

"the lack of commercial activity by the patentee is a significant factor in the calculus" of whether the patentee will suffer irreparable harm absent an injunction. *High Tech Medical Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed.Cir.1995). In the case at bar, the evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue. Moreover, the plaintiff never moved this court for a preliminary injunction. If it believed that it was suffering irreparable harm by the defendants' continued infringement of its patents, such a motion would have been appropriate. This fact, while certainly not dispositive of the issue, lends additional weight in support of the defendants' arguments that the plaintiff will not be irreparably harmed absent an injunction. Therefore, after consideration of all the facts in this case, the court believes that the plaintiff will not suffer irreparable harm if the injunction does not issue. As such, this factor tips against an injunction.

b. Adequate Remedy at Law

The plaintiff argues that it has no adequate remedy at law. The plaintiff points to an excerpt from a Federal Circuit case stating that

> [w]ithout the injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the leverage, afforded by the right to exclude, to enjoy the full

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not our goal to enforce these patents, we want to sell off our Intellectual Property rights.") (quoting Mr. Woolston, inventor of the patents at issue).

> value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Smith Int'l, 718 F.2d at 1577-78. On the other hand, the defendants note that money damages are an adequate remedy to compensate the plaintiff for any continuing infringement. *See Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324, 182 U.S.P.Q. 1 (2d Cir.1974) (finding that a compulsory royalty was the appropriate remedy); *Boehringer*, 106 F.Supp.2d at 704 ("This is not to say that money damages are never adequate . . ."). As stated above, the plaintiff has licensed its patents to others in the past and has indicated its willingness to license the patents to the defendants in this case. *See supra* n. 13. The Federal Circuit has held that evidence showing that the patent holder is willing to license his patent rights "suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case." *High Tech*, 49 F.3d at 1557. While the court is aware that many cases state that monetary damages are typically inadequate because it limits the patent holder from exercising its monopoly power, this is certainly an atypical case. Therefore, the court finds that in this particular case, the plaintiff has an adequate remedy at law, a factor weighing against the injunction.

c. Public Interest

As Judge Ellis stated in *Odetics*, "[t]he public-interest factor often favors the patentee, given the public's interest in maintaining the integrity of the patent system." 14 F.Supp.2d at 795. While this is certainly the norm, there are instances where it is not in the public interest to enjoin the infringer's activities. For example, courts have denied injunctions where

the infringed product was necessary for medical purposes. *See, e.g., Datascope Corp. v. Kontron, Inc.*, 786 F.2d 398, 401 (Fed.Cir.1986) (catheter used for treatment of heart patients). Courts have also declined to enjoin an infringer's actions where the granting of an injunction would cause the infringer "irreparable hardship . . . , without any concomitant benefit to the patentee," finding such a result to be "inequitable." *Foster*, 492 F.2d at 1324. The plaintiff argues that in this case, there is not countervailing public interest that would be served through a denial of an injunction. The defendants disagree. The defendants argue that the public interest is not furthered by enjoining activities based on improvidently granted patents, again stating that because this court called the infringement and validity issues "close calls," the patents are suspect and an injunction should not issue. However, the jury returned a verdict upon which this court will enter judgment. Thus, this argument does not show that the public interest is in favor of denying the injunction.

The defendants also argue that because there is a growing concern over the issuance of business-method patents, which forced the PTO to implement a second level review policy, *see, e.g.*, Testimony of Q. Todd Dickinson, Tr. 1203:8-1204:22, and caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents, *see, e.g.*, Business Method Improvement Act of 2001, H.R. 1332, 107th Cong., Apr. 3, 2001, the public interest would not be served by such an injunction. While this argument is certainly not dispositive, it lends significant weight against the imposition of an injunction, particularly in this case where the patentee does not practice its patents, nor has any intention of practicing its patents. Moreover, in a case such as this, the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein. *See, e.g.*, Testimony of Q. Todd Dickinson, Tr. 1131: 8-10 (stating that the ability to patent an invention via the patent system is important "[b]ecause it

allows other people to improve that invention, to build on it, and so building moves all technology, moves the system forward . . . ."). In sum, the court believes the public interest factor equally supports granting an injunction to protect the plaintiff's patent rights, and denying an injunction to protect the public's interest in using a patented business-method that the patent holder declines to practice.

d. Balance of the Hardships

As expected, each party argues that the balance of the hardships tips in their favor. Upon review of the record and factors listed above, the court is of the opinion that the balance tips slightly in the defendants' favor. The plaintiff's patents have been found valid and willfully infringed by the defendants. While it is important to respect the rights of the patent holder, in this case, the plaintiff exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them. Any harm suffered by the plaintiff by the defendants' infringement of the patents can be recovered by way of damages. *See generally Foster*, 492 F.2d at 1324 (affirming district court's denial of permanent injunction where, after assessing the relative equities, the court properly concluded that the patentee would benefit from a compulsory royalty). If the court did enjoin the defendants here, the court would essentially be opening a Pandora's box of new problems. This case has been one of the more, if not the most, contentious cases that this court has ever presided over. From day one the parties have been unable to agree on anything, in fact, the only agreed stipulation at trial was that this court had subject matter jurisdiction. The court predicts that if it granted the plaintiff's request for a permanent injunction, the battle would continue to be as contentious as ever. For example, the defendants have argued that they can design around the patents with relative ease. The plaintiff, on the other hand, continues to strenuously assert that such a design around is impossible. *See* Dkt. 593, p. 7 ("MercExchange, of

course, does not believe the proposed 'design-arounds' avoid infringement . . . . Nothing, however, prevents Defendants from implementing a 'true' design-around of the patents, if they can. But the evidence to date suggests that they cannot."). The court envisions contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to the defendants' systems violates the injunction. This will result in extraordinary costs to the parties, as well as considerable judicial resources. In fact, the court would most likely be required to retain an expert in the field in order to determine if the new systems infringe on the patent. While the court understands that these reasons alone are not sufficient to deny an injunction to a patent holder, they are simply factors the court must consider when balancing the equities in this highly unusual case.

Moreover, the court notes that if the defendants continue to infringe the plaintiff's patents, the court will be more inclined to award enhanced damages for any post-verdict infringement. *See, e.g., Stryker Corp. v. Davol Inc.*, 234 F.3d 1252, 1259 (Fed.Cir.2000) (affirming district court's award of enhanced damages for post-verdict infringement as reasonable); *Corning Glass Works v. Sumitomo Electric U.S.A. Inc.*, 671 F.Supp. 1369, 1401, 5 U.S.P.Q.2d 1545 (S.D.N.Y.1987) ("To proceed [after an infringement determination] to manufacture and sell the same [infringing product] without changes designed to avoid infringement can only be construed as outright defiance or baseless optimism . . . [which entitles the patentee] to recover increased damages."). Thus, the plaintiff certainly will be compensated for any actions by the defendants in the absence of an injunction. Therefore, after consideration of all the factors discussed above, it appears that the balance of the hardships tips in favor of the defendants.

In sum, after consideration of all the arguments, the plaintiff's Motion for a Permanent Injunction is denied.

2. Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003.

In this Motion, the plaintiff alleges that defendant eBay has violated this court's February 26, 2003 injunction order by continuing to allow ReturnBuy and Jabil Global Services ("Jabil") to post items for sale on its website. Defendant eBay disputes that a show cause order is required, as ReturnBuy is no longer in business and the plaintiff has failed to show that Jabil is violating the injunction order or that eBay is inducing or aiding and abetting that violation.

On February 26, 2003, the court entered an injunction order against ReturnBuy, which was once a party to this action. In the order, the court stated that

> ReturnBuy further agrees and stipulates that it, its officers, agents, servants, employees and attorneys, and any person in active concert or participation with them who receive actual notice of this judgment are permanently enjoined from infringing the above claims of the '265 Patent by making, using, selling or offering for sale a computer-implemented service, system, and/or process(es) which facilitates the posting of items or goods for sale or auction through or by an electronic online market or auction, that also employs a digital imaging means and a textual description of the item or good for sale or auction, and any colorable variation thereof.
>
> Notwithstanding the foregoing, this injunction is subject to the separate License Agreement and Settlement Agreement entered into by and between MercExchange and ReturnBuy.
>
> Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being

> litigated between eBay, Half.com and MercExchange in this case.

Judgment and Order, Dkt. 278 (Feb. 26, 2003). After the court issued this order, the plaintiff appealed the order based on the court's addition of the final sentence cited above. Upon motion to dismiss by the defendants, the Federal Circuit dismissed the appeal, holding that the plaintiff failed to show that there was a "serious, perhaps irreparable consequence or that the order can be effectually challenged only by immediate appeal." Dkt. 564, Ex. I, p. 3. The Federal Circuit noted that the plaintiff could always file a motion for contempt in the district court if it believed ReturnBuy violated the order. The plaintiff now seeks the court to enter a show cause order for eBay's violation of this injunction order.

The Fourth Circuit has held that

> [t]o establish civil contempt, each of the following elements must be shown by clear and convincing evidence: (1) the existence of a valid decree of which the alleged contemnor had actual or constructive knowledge; (2) . . . that the decree was in the movant's "favor"; (3) . . . that the alleged contemnor by its conduct violated the terms of the decree, and had knowledge (at least constructive knowledge) of such violations; and (4) . . . that [the] movant suffered harm as a result.

Ashcraft v. Conoco, Inc., 218 F.3d 288, 301 (4th Cir.2000); *see also In re General Motors Corp.*, 61 F.3d 256, 258 (4th Cir.1995) ("The burden is on the complainant to prove civil contempt by clear and convincing evidence."). In patent cases, a court must make two determinations before entering a finding of contempt. "The first is whether a contempt hearing is an appropriate forum in which to determine whether a redesigned device infringes, or whether the issue of infringement should be resolved in a separate infringement action. . . . [T]he second question . . . is whether the new

accused device infringes the claims of the patent." *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1349 (Fed.Cir.1998) (citing *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1530-32 (Fed.Cir. 1985)). However, it remains within the court's "broad discretion to determine how to best enforce its injunctive decrees." *Id.*

In this case, the plaintiff alleges that because all of ReturnBuy's assets, except for the license agreement with MercExchange, were sold to Jabil following ReturnBuy's dissolution in bankruptcy, and because Jabil continues to list items for sale under ReturnBuy's name on eBay's website, that it is in contempt of this court's order. Moreover, the plaintiff argues that eBay is also in contempt for permitting Jabil to continue to post items for sale on its website. However, the only evidence with respect to this before the court is (1) ReturnBuy's assets were sold to Jabil; (2) Jabil sold items under ReturnBuy's name following the entry of the injunction; (3) Jabil sold the items on the eBay website; and (4) following the jury's verdict in this case, no items are being sold under either ReturnBuy or Jabil's names on eBay. This evidence is a far cry from the clear and convincing evidence necessary for this court to issue a show cause order. The plaintiff has offered nothing to show that Jabil is utilizing the same infringing methods that ReturnBuy used. The first step in the Federal Circuit's test to determine contempt is to determine whether a redesigned product infringes the patent. "That decision turns on a comparison between the original infringing product and the redesigned device." *Id.* The plaintiff assumes that because Jabil is using many of ReturnBuy's assets and business practices that it is indeed infringing. Furthermore, the plaintiff assumes that eBay is somehow aiding and abetting this infringement. However, the court is not willing to make these assumptions at this time. Therefore, the plaintiff's Motion is denied.

3. Renewed Motion for Judgment as a Matter of Law.

In this Renewed Motion, the plaintiff seeks JMOL that the claims of the '176 and '265 patents are valid. Specifically, the plaintiff argues that the jury's verdict demonstrates that no reasonable jury could determine that (1) the '176 and '265 patents are invalid for failure to comply with the enablement or written description requirements of section 112; (2) the '176 patent is invalid due to anticipation or obviousness; or (3) the '265 patent is invalid due to anticipation or obviousness. The plaintiff contends that these issues should not be retried if the case is remanded to this court for another trial. The defendants on the other hand object to the renewed motion for JMOL, asserting that the court should enter JMOL in their favor regarding the invalidity of the patents.

Rule 50(b) states that if a verdict was returned, the court has three options when ruling on a renewed motion for JMOL. It can allow the judgment to stand, order a new trial, or direct entry of judgment as a matter of law. Fed.R.Civ.P. 50(b). In this case, the plaintiff has essentially reargued its opposition to the defendants' renewed motions for JMOL, which are discussed above. The court finds that there was substantial evidence presented by the defendants to contest the validity of the patents at issue. The jury found that this evidence was not clear and convincing. However, such a finding by this jury does not mean that no reasonable jury would have viewed the evidence in the same way. As such, this court will not direct the entry of JMOL, but rather allow the jury's verdict to stand. Therefore, the plaintiff's Motion is denied.

4. Motion for Prejudgment and Postjudgment Interest.

Next the plaintiff moves for prejudgment and postjudgment interest. The defendants do not object to the imposition of postjudgment interest pursuant to 28 U.S.C. § 1961(a). As such, the court grants the plaintiff's Motion for Postjudgment

Interest. The defendants do object to the plaintiff's Motion for Prejudgment Interest, specifically the interest rate and method of compounding requested by the plaintiff.

The award of prejudgment interest is permitted by 35 U.S.C. § 284. The Supreme Court interpreted this statute and held that "prejudgment interest should ordinarily be awarded . . . to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement." *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983); *accord Bio-Rad Labs., Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 969 (Fed.Cir.1986). The Court reasoned that "[a]n award of interest from the time that the royalty payments would have been received merely serves to make the patent owner whole, since his damages consist not only of the value of the royalty payments but also of the foregone use of the money between the time of infringement and the date of the judgment." *Devex*, 461 U.S. at 655-56, 103 S.Ct. 2058. While prejudgment interest is ordinarily awarded, this court is aware that there may be circumstances where such an award is not appropriate. *Id.* at 657, 103 S.Ct. 2058. However, in this case, the court believes that there are no circumstances that indicate an award of prejudgment interest is not appropriate and will grant the plaintiff's Motion for Prejudgment Interest.

The next step is to determine the interest rate and compounding method to be used to compute the prejudgment interest. The plaintiff seeks prejudgment interest using prime rate compounded quarterly. The plaintiff provides no reason why prime rate should be used; however, it does suggest that because the defendants provide their financial data on a quarterly basis as required, compounding the interest quarterly is appropriate. The defendants, on the other hand, contend that the interest rate be no more than the one-year Federal Treasury rate, compounded annually. The defendants

argue that this rate is appropriate because prejudgment interest "is awarded to compensate for the delay in payment of the damages, and not to punish the infringer." *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed.Cir.1983). Moreover, the defendants maintain that this is appropriate because the plaintiff failed to provide any evidence that it was forced to borrow money at any higher rate, citing *Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 955 (Fed.Cir.1997). While the plaintiff disputes that it is required to provide any evidence, based on another Federal Circuit case, *see Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed.Cir.1991), the court finds the *Laitram* case persuasive because of its more recent date.

In this case, the court will apply an interest rate equal to the one-year Federal Treasury rate, compounded quarterly. The plaintiff has offered no evidence, even after the defendants raised the issue, that it was forced to borrow money at a rate equal to or above the prime rate. Furthermore, because the defendants are required to provide financial data on a quarterly basis, compounding the interest quarterly will be a relatively simple process.

5. Motion for Post-Verdict and Postjudgment Accounting.

In this Motion, the plaintiff seeks post-verdict and post-judgment accounting, including: (1) a monthly accounting from April 1, 2003 through the date of this order of gross merchandise sales for fixed-price goods; (2) supplemental compensatory damages from April 1, 2003 through the date of this order based upon the jury's reasonable royalty rates; (3) a determination of liability for the defendants' post-judgment sales of infringing services prior to the effective date of any injunction this court might enter; and (4) enhancement of supplemental damages. The defendants object to this request, arguing three main points. First, the defendants argue that the plaintiff has waived the right for an accounting as it failed to raise it in the Final Pretrial Order.

The defendants cite *Lucent Tech., Inc. v. Newbridge Networks Corp.*, 168 F.Supp.2d 269, 273 (D.Del.2001) for support. Second, the defendants maintain that pursuant to 28 U.S.C. § 1292(c)(2), the court should not take action on the accounting issue until after any appeals of the case are completed. Finally, the defendants contend that there is no reasonable royalty rate to use as the verdict form did not specify what royalty rate the jury utilized in determining the damages awarded.

With respect to the defendants' first argument, the plaintiff has not waived its right to seek an accounting, as it made the request in the initial complaint and the first amended complaint. The cases cited by the parties make it clear that provided the defendants received notice that the plaintiff would seek an accounting, it does not matter if it is not in the Final Pretrial Order as opposed to the complaint. *See, e.g., Lucent,* 168 F.Supp.2d at 273 (barring the plaintiff from obtaining an accounting because it "did not request an accounting in the Final Joint Pretrial Order or in the Amended Complaint.").

The second and third arguments put forth by the defendants are more difficult to dismiss. Both of these arguments revolve around the complexity, expense and uncertainty surrounding the completion of an accounting. As stated above, the jury awarded the plaintiff more than it was asking in some circumstances, and less in others. Moreover, the verdict form did not include a question seeking the royalty rate used by the jury in determining the damage award. The defendants maintain that this uncertainty renders an accounting difficult, if not impossible. Given that this has the potential to create a litigation unto itself, the court will defer its ruling on this until after any appeals of this case are concluded. *See* 28 U.S.C. § 1292(c)(2) ("The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction of an appeal from a judgment in a civil action for

patent infringement which . . . is final except for an accounting."); *see also McCullough v. Kammerer Corp.*, 331 U.S. 96, 98, 67 S.Ct. 1165, 91 L.Ed. 1365 (1947). The court notes that the plaintiff will not suffer any great harm from this decision as the court will certainly consider awarding enhanced damages for any post-verdict infringement following the result of any appeal. *See supra* section II.B.1.d. Accordingly, this issue will be removed from the active docket pending appeal of the case to the Federal Circuit. Following any such appeal, the parties are instructed to ask the court to return the matter to the active docket if necessary.

6. Motion for Enhanced Damages Under 35 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285.

In this motion, the plaintiff seeks enhanced damages based on the jury's finding of willful infringement. In addition, the plaintiff seeks the award of attorneys' fees. In response, the defendants claim that the court should enter judgment as a matter of law in their favor as there was insufficient evidence for a finding of willfulness. In the alternative, the defendants maintain that despite the finding of willfulness, enhanced damages and attorneys' fees are not warranted in this "close" case.

a. Enhanced Damages

"Upon a finding of willful infringement, a district court may, at its discretion, grant up to treble damages." *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1274 (Fed.Cir. 1999) (citing 35 U.S.C. § 284). However, "while willful infringement may allow enhanced damages, such finding does not compel the district court to grant them. Instead, the decision to grant or deny enhanced damages remains firmly within the scope of the district court's reasoned discretion, informed by the totality of the circumstances." *Id.* (internal citations omitted). "The paramount determination in deciding to grant enhancement and the amount thereof is the egre-

giousness of the defendant's conduct based on all the facts and circumstances." *Read*, 970 F.2d at 826. In determining whether a particular case requires enhanced damages, the Federal Circuit has provided a number of factors a court should consider. These include: (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior as a party to the litigation; (4) the defendant's size and financial condition; (5) the closeness of the case; (6) the duration of the defendant's misconduct; (7) the remedial action by the defendant; (8) the defendant's motivation for harm; and (9) whether the defendant attempted to conceal its misconduct. *See id.* at 827. The plaintiff has alleged that many of these factors weigh in favor of enhancing the damages. The court will address each in turn.

(i) whether the infringer deliberately copied the ideas or design of another

The plaintiff alleges that the defendants, after receiving notice of the plaintiff's patents, copied the ideas contained therein. Specifically, the plaintiff argues that eBay's purchase of Half.com, PayPal, and the incorporation of the "Buy-It-Now" feature all contributes to the conclusion that the defendants were copying the ideas in the patents. The defendants maintain that their success did not arise from the use of anything contained in the plaintiff's patents. Moreover, the defendants argue that the patents offer no business or engineering guidance which the defendants could copy. This court agrees. While the jury found that there was insufficient evidence to find these patents invalid for lack of enablement, there was expert testimony describing the lack of source code and other features which would allow another to implement these patents. Moreover, eBay was using payment

processors long before it received notice of the '265 patent, despite the fact that the purchase of PayPal occurred following that time. Therefore, the court finds that this factor does not weigh in favor of enhancing the damages.

(ii) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed

With respect to the second factor, the court has fully addressed the issue of willfulness in the defendants' Motion for Judgment as a Matter of Law. *See supra* section II.A.1.a. Based on this same reasoning, the court finds that this factor weighs in favor of enhanced damages.

(iii) the infringer's behavior as a party to the litigation

The plaintiff spends almost 20 pages in its Motion detailing the defendants' "abusive and expense-enhancing litigation tactics." *See* Dkt. 574, pp. 7-24; *see also* Dkt. 594, pp. 11-17. In response, the defendants spend considerable time detailing the plaintiff's behavior during this litigation. *See* Dkt. 581, pp. 12-24. These detailed descriptions of the parties' actions in this case are certainly not necessary, as the court is all too familiar with the close to 600 documents filed in this case. This case was bitterly fought from day one. However, neither side comes to this stage in the case with perfectly clean hands. As such, the court will not use the conduct of either side as a basis to grant or deny the enhancement of damages.

(iv) the defendant's size and financial condition

The next factor the court must consider is the defendant's size and financial condition. The plaintiff argues that because defendant-eBay is a highly successful company, with first quarter 2003 profits of over $380 million, that trebling the damages is the only way the defendants would feel the punitive impact from their willful infringement. The defen-

dants maintain that reliance on the fact that eBay is a "deep pocket" is improper and that their size and financial condition should only be a minor consideration. *See Odetics*, 14 F.Supp.2d at 800. This court agrees. While the fact that eBay is such a large and wealthy corporation is certainly a factor in determining whether to enhance the damages, the court will only give it minor consideration when weighing the totality of circumstances.

(v) the closeness of the case

The plaintiff maintains that this case was not close, as the defendants were found to have infringed both patents and all invalidity defenses were rejected. Moreover, the fact that the jury found willfulness by clear and convincing evidence warrants a finding that the case was not close. The defendants, on the other hand, argue that this case was extremely close, as is indicated by the fact that the jury found that neither defendant indirectly infringed the '176 patent and that Half.com did not indirectly infringe the '265 patent. In addition, the fact that the court found that the '051 patent, the patent which comprised 75% of the damages sought by the plaintiff, invalid on summary judgment further supports the finding that the case was close. As this court held in the defendants' first Rule 50 Motion, whether or not there was sufficient evidence on willfulness was a close call and the court reserved the right to revisit the issue after the jury returned its verdict. Therefore, the court finds that the case was sufficiently close, a factor that weighs against the imposition of enhanced damages. *See generally Modine Mfg. Co. v. The Allen Group*, 917 F.2d 538, 543 (Fed.Cir.1990) (finding no abuse of discretion where district court refused to enhance damages because willfulness was "sufficiently close on the evidence," despite the fact that the jury had found willfulness by clear and convincing evidence).

(vi) the duration of the defendants' misconduct

The plaintiff asserts that enhanced damages are warranted because the "defendants' infringing conduct has lasted for two years and they have no intention of ceasing the infringement." However, as support for this factor, the plaintiff again relies on the fact that the defendants did not obtain an opinion of counsel.[14] The court notes that this litigation has been going on for almost two years and that the plaintiff never filed a motion for a preliminary injunction to prevent the defendants from continuing the infringement during the pendency of this litigation. The court will not allow the plaintiff to now use that fact to its advantage. Therefore, the court finds that this factor does not weigh in favor of enhanced damages.

(vii) the remedial action by the defendants

With respect to this factor, the plaintiff claims that the defendants made a deliberate decision not to undertake any remedial actions by not designing around the patent as they claim they could have easily done at a cost of less than $15,000. The plaintiff claims that the defendants' refusal to take such remedial action is a further indication of bad faith and the need for a punitive component to the damages award. The court agrees. The defendants stressed the fact that they could have designed around the patents with only a few man-hours and very little expense, but failed to do so. As such, this factor weighs in favor of enhanced damages.

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[14] In addition, the plaintiff implies that because the defendants have indicated that they will appeal the verdict, they should be punished for this continued effort. The court finds this argument incredible, especially given the fact that all through this litigation, particularly after the court found the '051 patent invalid, the plaintiff indicated its intention to appeal this case. In fact, the plaintiff has already made one unsuccessful appeal in this case. The fact that the defendants intend to file an appeal is completely irrelevant to the court's determination of enhanced damages.

(viii) the defendants' motivation for harm

The plaintiff did not allege that the defendants' motivation was to harm it or Mr. Woolston, nor is there any evidence of such. Therefore, the court will not consider this factor.

(ix) whether the defendants attempted to conceal their misconduct

Once again, there has been no indication that the defendants attempted to conceal their misconduct, nor has the plaintiff made such an allegation. Therefore, the court will likewise not consider this factor.

In sum, after careful review of all the factors for and against enhancing damages in this case, the court finds that there is an insufficient basis to make such an award. Therefore, the plaintiff's Motion with respect to enhanced damages is denied.

b. Attorneys' Fees

In this portion of the Motion, the plaintiff also seeks attorneys' fees pursuant to 35 U.S.C. § 285. This section provides that in exceptional cases, the court may award reasonable attorney fees to the prevailing party. 35 U.S.C. § 285. "The trial judge's discretion in the award of attorney fees permits the judge to weigh intangible as well as tangible factors: the degree of culpability of the infringer, the closeness of the question, litigation behavior, and any other factors whereby fee shifting may serve as an instrument of justice." *National Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1197 (Fed.Cir.1996). The court notes that many of the factors cited are the same as those discussed above with respect to enhanced damages. Therefore, for the reasons set forth above, the court finds that an award of attorneys' fees is not warranted in this case. Accordingly, the plaintiff's Motion is denied.

7. Motion for Entry of Final Judgment.

The plaintiff seeks entry of final judgment, based on the jury's verdict and resolution of the post-trial motions. While the court agrees that the entry of final judgment is required, it does not grant the final judgment sought by the plaintiff. Rather, the court enters final judgment consistent with the jury's verdict and the rulings on the above post-trial motions. Accordingly, the Clerk is directed to enter judgment for the plaintiff in the amount of $29.5 million. This consists of $10.5 million for eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent. Moreover, this judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and postjudgment interest at the standard rate.

III. Conclusion

For the reasons discussed above, the court makes the following rulings: (1) Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent is *DENIED*; (2) eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265 Patent is *DENIED*; and (3) eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law is *DENIED in part* and *GRANTED in part*; (4) the plaintiff's Motion for Entry of a Permanent Injunction Order is *DENIED*; (5) the plaintiff's Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003 is *DENIED*; (6) the plaintiff's Renewed Motion for Judgment as a Matter of Law is *DENIED*; (7) the plaintiff's Motion for Prejudgment and Postjudgment Interest is

GRANTED, with the exception of the interest rate used; (8) the plaintiff's Motion for Post-Verdict and Postjudgment Accounting is *DEFERRED* pending appeal, and the Clerk is *INSTRUCTED* to remove this Motion from the court's active docket; (9) the plaintiff's Motion for Enhanced Damages Under 35 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285 is *DENIED*; and (10) the plaintiff's Motion for Entry of Final Judgment is *GRANTED in part* and *DENIED in part*.

The Clerk is *REQUESTED* to send a copy of this Order to counsel of record.

It is so *ORDERED*.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed May 11, 2005]

No. 03-1600, -1616

MERCEXCHANGE, L.L.C.,
Plaintiff-Cross Appellant,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants-Appellants.

Appeals from the United States District Court for the Eastern District of Virginia in case no. 2:01-CV-736, Judge Jerome B. Friedman

---

ORDER

Defendants-Appeallants have moved for a stay of the mandate pending filing of a petition for a writ of certiorari in the Supreme Court pursuant to Fed. R. App. P. 41(d)(2)(A). Plaintiff-Cross-Appellant MercExchange, L.L.C.'s ("MercExchange") has filed a brief in opposition to the motion.

Upon consideration thereof,

IT IS HEREBY ORDERED THAT:

The motion of Defendants-Appeallants for a stay of the mandate is GRANTED.

It is so ORDERED.

Date: May 11, 2005

/s/ Jan Horbaly/Lp
Circuit

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 03-1600, -1616

MERCEXCHANGE, L.L.C.,
Plaintiff-Cross Appellant,

v.

eBAY, INC. and HALF.COM, INC.,
Defendants-Appellants.

ORDER

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed Apr 26, 2005]

ORDER

A combined petition for panel rehearing and for rehearing en banc having been filed by the APPELLANTS,* and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on May 3, 2005.

FOR THE COURT,

/s/ Jan Horbaly
JAN HORBALY
Clerk

Dated: April 26, 2005

cc: Jeffrey G. Randall
Scott Robertson

MERCEXCHANGE V EBAY, 03-1600, -1616
(DCT—2:01-CV-736)

* An amici curiae brief was filed by Dell, et al.

Note: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public record.

Supreme Court, U.S.
FILED
SEP 26 2005
OFFICE OF THE CLERK

No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

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September 26, 2005

QUESTION PRESENTED

Whether the Federal Circuit correctly determined that the district court abused its discretion in denying a permanent injunction under the case-specific facts presented here once infringement was found.

PARTIES TO THE PROCEEDING

Respondent MercExchange, L.L.C. is a Virginia Limited Liability Company. No publicly-held company owns more than 10% of MercExchange.

In addition to petitioners eBay Inc. and Half.com, Inc., ReturnBuy, Inc. ("ReturnBuy") was a defendant in this action. Prior to trial, ReturnBuy entered into a license agreement with MercExchange and settled the lawsuit.

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STATUTORY PROVISIONS INVOLVED

Section 154 of the Patent Act, 35 U.S.C. § 154(a)(1), provides, in pertinent part, that:

> Every patent shall contain...a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States....

Section 261 provides, in pertinent part, that:

> Subject to the provisions of this title, patents shall have the attributes of personal property.

Section 283 provides that:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

INTRODUCTION

The petition presents no general legal issue meriting review by this Court. There is no division within the Federal Circuit over the principles of law governing the issuance of permanent injunctions once infringement has been found. There was no dissenting opinion, and the petition for rehearing and rehearing *en banc* was denied without dissent.

Indeed, the Federal Circuit has been entirely faithful to this Court's jurisprudence in this area. The principles it applied are well-established and have been repeatedly reaffirmed. In fact, the petitioners ignore entirely this Court's leading pronouncement on the matter which long ago settled the question presented here. Moreover, the Federal Circuit's articulation and application of these principles in this case was correct. Petitioner's challenge to

the decision, therefore, presents only case-specific issues not appropriate for review by this Court.

COUNTER-STATEMENT OF THE CASE

Petitioners contend that "[a] permanent injunction in the context of patent law is a potent remedy." Pet. Brf. at 2. It should be. Petitioners stand before this Court conceded intentional infringers, having waived any further challenge to that finding. As such, they claim they are confronted with a difficult choice: redesign their product to eliminate reliance on the patent, negotiate a fair license agreement as a result of their willful infringement, or cease infringing altogether. This may be a difficult choice, but it is the natural consequence of their infringing acts, given the essence of the right conferred by a patent: the right to exclude. Indeed, it is the choice that confronts every adjudicated infringer.

To do otherwise, particularly under the facts of this case, is to undermine the careful balancing that Congress conducted in crafting the Patent Act. As this Court recognized in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974):

> The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to "promote the Progress of Science and useful Arts." *The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development.* The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens.

Id. at 480 (emphasis added).

"The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989).

Any candid discussion concerning the standards for permanent injunctions, however, should begin with this Court's decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). As this Court observed, "[t]he right which a patentee receives does not need much further explanation. We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor." *Id.* at 429. Thus,

> [f]rom the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

Id. at 430.

Petitioners' single fleeting reference to the *Continental Paper Bag* decision, Pet. Brf. at 24, reveals their awareness of the case, but also exposes their unwillingness to come to grips with its holding. Although unstated, Petitioners seek no less than that this decision be overruled. The Court would be wise not to upset this long-established law. It is consistent with the purposes stated by Congress in the Patent Act. And it has stood the test of time.

In reviewing the lower court's ruling, the Federal Circuit addressed the specific reasons given for denying the injunction. In each instance, it found the district court's reasoning flawed, and accordingly, reversed the denial.

Indeed, petitioners fail to mount even a modest defense of the district court's analysis.

Instead, they erect a strawman argument, variously describing the Federal Circuit's case-specific ruling as an "automatic injunction rule," a "*per se* rule" or a "virtual irrebutable presumption." It is nothing of the sort. And once the premise is scrutinized, the argument collapses.

Contrary to petitioners' contentions, the Federal Circuit announced no new rule requiring injunctions in all instances once infringement is found. Its jurisprudence with respect to permanent injunctions is entirely consistent with the long-settled precedent of this Court. And while petitioners attempt to take the Federal Circuit to task for its alleged failure to mechanically recite and apply the traditional four-part test governing the issuance of a permanent injunction, ironically, it performed that very analysis in this case.

The district court, as petitioners observe, considered whether: (i) the plaintiff faced irreparable harm, (ii) the plaintiff had an adequate remedy at law, (iii) granting the injunction was in the public interest, and (iv) the balance of hardships tipped in the plaintiff's favor. In turn, the Federal Circuit addressed each point.

If petitioners' criticism of the Federal Circuit's reversal had merit, however, one would expect to see a rigorous application by them of the four-part test establishing that the Federal Circuit had reached an erroneous result, rather than the district court. But it is nowhere to be found. Irreparable harm and inadequacy of the legal remedies are a natural consequence of the violation of the right conferred: the right to exclude. That "right" can only retain its "attribute of exclusiveness" by prevention of its continued violation. As for balancing of the hardships, it is difficult to understand how the scales could ever tip in favor of the intentional infringer, rather than the innocent property owner. But in this instance, where the evidence established that eBay first

sought to buy MercExchange's patents, and then later simply decided to infringe, the balance could never tip in its favor.

As for the "public interest," this factor should always be considered. In fact, it has often been said that the public interest factor favors the patentee, given the public's interest in maintaining the integrity of the patent system. And, there is no such countervailing public interest present here: the public has no significant stake in the ability of eBay users to buy and sell collectibles, and other goods, over the Internet.

As this Court has repeatedly observed, the right to exclude is "universally held to be a fundamental element of the property right." *See, e.g., Kaiser Aetna v. United States*, 444 U.S. 164, 180-81 (1979). Petitioners, however, would have this Court ignore this fundamental right and replace it with an entirely unworkable "compulsory license" scheme. Under petitioners' analysis, any failure to succeed in building a business to commercialize a patent would result in an involuntary license afforded to anyone who is willing to pay a royalty — albeit on their own terms. But that is not the law.

I. BACKGROUND

The inventor Thomas Woolston applied for his first patent involving online market and auction technologies in April of 1995, some five months before eBay came into existence. MercExchange, is the assignee of four such patents. U. S. Patent No. 5,845,265 (the "'265 Patent") was the first patent issued in December of 1998.

The '265 Patent provides a set of tools for individuals to sell goods to other individuals ("person-to-person") at a fixed price over the Internet. "Posting terminals," typically a personal computer with an Internet browser, with access to "digital imaging means," such as a digital camera or scanner, and a "communication interface" can "post" or list a good for sale over a "trusted network or system."

The item is then "virtually presented" for sale at an "electronic market" accessible by users over the Internet. A "transaction processor operably connected" to the market can clear payment from a buyer and transfer ownership of the good through records maintained by the electronic market. Both eBay and Half.com employ this functionality in their "trusted systems," as the jury found.

Contrary to petitioners' assertions, MercExchange is no "non-practicing entity," or "NPE." During the 1999-2000 period, MercExchange worked hard to commercialize the technology disclosed and claimed in the patents and applications. C.A. App. 37004-08.

During this period of development, eBay representatives met with MercExchange in June of 2000 in an effort to purchase its patent portfolio. eBay set the agenda for the meeting.

> Below is an outline description of where we are in this negotiation.... *eBay is interested in acquiring a family of applications related to U.S. Patent No. 5,845,265.*

C.A. App. 63785-86 (emphasis added). At the time of this early meeting, eBay was not infringing the '265 Patent. But by July of 2000, eBay acquired a fast-growing competitor, Half.com, for $290 Million, for its successful fixed-price sales capability. In the Fall of 2000, eBay launched its online "transaction processor" known as Billpoint. By this point, eBay had deliberately commenced infringement.

Unfortunately, by late 2000, MercExchange's business efforts were impeded by wide-spread infringement and a lack of capital. MercExchange determined that enforcement of the patent rights was its only recourse. C.A. App. 37005-06.

MercExchange filed suit against petitioners and ReturnBuy — a seller of goods on eBay's online

marketplace — in September of 2001. During the course of the litigation, eBay acquired PayPal, Inc. for $1.5 Billion, replacing Billpoint as its online payment processor.

In December of 2002, MercExchange licensed Autotrader.com — a previous seller on eBay — to its patent portfolio, including the '265 Patent. C.A. App. 37011. That license, however, predicated future royalties upon MercExchange's ability to enjoin eBay from practicing certain of its patent rights. C.A. App. 46615-27.

As the district court observed, the litigation was indeed "bitterly fought." App. 58a, 69a. Petitioners filed eight motions for summary judgment, only one of which was granted, later to be reversed by the Federal Circuit. App. 23a. To say the least, the burdens and costs to MercExchange for the litigation were enormous.

A five week trial commenced in April of 2003. Although the defendants disparaged MercExchange's technical achievements, during trial it was revealed that starting in 1998, eBay had begun to file for patents in the same field at the pace of one application every two weeks. *See* C.A. App. 44216-19; 39992-94. The vast majority of those applications cited MercExchange's patents as material prior art. Moreover, it was established that the Patent and Trademark Office ("PTO") has had occasion to reject petitioners' applications as anticipated by the '265 Patent. C.A. App. 46360-69; 39988-91.

At trial, one eBay expert testified that eBay could "design around" the patents in suit for less than $15,000. On cross-examination, however, he conceded that eBay had never implemented any such "design-around," and more importantly, he had failed to even inform eBay about it. C.A. App. 40005-08.

The jury returned its verdict of willful infringement on May 27, 2003. Nine months after that judgment was entered,

eBay sought reexamination before the PTO of three of MercExchange's patents, including the '265 Patent, based essentially on the same prior art it presented at trial.[1]

Following the Federal Circuit's decision, eBay issued a press release stating it was "pleased" with the decision. *See* http://investor.ebay.com/releases.cfm. Thereafter, in public SEC filings, eBay has told the investing public that "any injunction that might be issued by the district court will not have any impact on [its] business."[2]

II. THE STATUTORY SCHEME

The grant to Congress to enact the patent laws finds its origin in the Constitution, Art. I, § 8, cl. 8. It empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." *Id.* Petitioners' analysis of the Patent Act, however, begins and ends with its remedial scheme. Petitioners focus exclusively on the fact that Section 283 provides that courts "may" grant injunctions to prevent patent violations. Accordingly, petitioners argue that courts have discretion in granting or denying an injunction. MercExchange does not disagree. And neither does the Federal Circuit. But that discretion is not unfettered. It is subject to review by an appellate court, and can be reversed

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[1] The stated legislative purpose of the reexamination statute is to "resolve validity disputes more quickly and less expensively than litigation," and give courts the "benefit from the expertise of the PTO for prior art that was not previously of record." *In re Recreative Technologies Corp.*, 83 F.3d 1394, 1396 (Fed. Cir. 1996). That purpose was clearly frustrated by eBay's post-verdict submission.

[2] MercExchange believes these representations to be untrue. However, it is disingenuous to present to this Court a parade of horribles that would befall petitioners should an injunction enter, when they report otherwise to their shareholders.

when the discretion is abused — as occurred here. There are certainly circumstances in which injunctions can and should be denied, notwithstanding a finding of infringement. Those circumstances have historically involved a significant public interest.

The remedy of the injunction, however, cannot be divorced from its purpose: "to prevent the violation of any right secured by patent." 35 U.S.C. § 283. The "right" Section 283 references is undeniably the "right to exclude" conferred by the patent.

Section 154 states that "[e]very patent shall contain ... *a grant to the patentee, his heirs or assigns, of the right to exclude* others from making, using, offering for sale, or selling the invention throughout the United States...." (emphasis added). It is the right to exclude, therefore, that Section 283 is intended to protect.

Moreover, Section 261 states that "patents shall have the attributes of personal property." "The hallmark of a protected property interest is the right to exclude others. That is 'one of the most essential sticks in the bundle of rights that are commonly characterized as property.'" *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999). Thus, once the "right" is appreciated, the remedy of the injunction is the only means to preserve it. *See Guaranty Trust Co. v. York*, 326 U.S. 99, 108 (1945) ("a right without a remedy is no right at all").

It is no answer, therefore, to say that "money damages" are available under Section 284. Damages do not permit MercExchange to exercise the right granted by statute; only an injunction can achieve that goal. Further, by its express terms, Section 284 permits a "court to award damages adequate to compensate for the infringement *for the use made* of the invention by the infringer...." (emphasis added). Typically, this award is for past damages. *See Atlas Powder*

Co. v. Ireco Chem., 773 F.2d 1230, 1233 (Fed. Cir. 1985) ("[A]rguments that ... damages are fully compensible [sic] in money downplay the nature of the statutory right to exclude others...").

REASONS FOR DENYING THE PETITION

For at least a century, it has been well settled that the nature of the statutory patent grant generally compels that a court will enter a permanent injunction upon a finding of infringement and validity. Thus, the Federal Circuit did not set forth a "sweeping holding," nor did it "fundamental[ly] misconstru[e] [] the law authorizing patent injunctions," as petitioners contend. Pet. Brf. at 12.

Indeed, petitioners fail to inform the Court that during this same year, the Federal Circuit has affirmed the denial of a permanent injunction after a finding of infringement, applying an abuse of discretion standard of review. *See Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380 (Fed. Cir. 2005).

In this case, the appellate court did nothing more than review the case-specific rationale the district court articulated for denying an injunction, and the appellate court correctly found this reasoning to be flawed.

I. THE FEDERAL CIRCUIT CORRECTLY RULED THAT THE DISTRICT COURT ABUSED ITS DISCRETION IN DENYING A PERMANENT INJUNCTION

Petitioners contend that the Federal Circuit — supposedly in defiance of the Patent Act, the rulings of this Court, and the approach taken by other federal courts applying other intellectual property statutes — has adopted a "*per se*" rule that precludes a district court's exercise of discretion. As evidence of this supposed "*volte-face*," petitioners contend that in this case the appellate court did not recite, and therefore must not have applied, the

traditional four-part test governing whether to grant an injunction.[3]

This elevates form over substance. The Federal Circuit clearly considered the specific facts of this case, and the specific reasons that the district court articulated for denying an injunction under the traditional criteria. App 26a-28a. Indeed, the Federal Circuit considered the very equitable considerations petitioners accuse it of discarding.

The Federal Circuit recognized that an injunction was not mandatory but was a matter of discretion. App. 26a (stating "[t]o be sure, 'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest'") (citations omitted).

First, the appellate court addressed the district court's rationale that the public interest did not weigh in favor of an injunction because of an alleged "growing concern over the issuance of business-method patents, which ... caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents." App. 26a (quoting App. 57a)). The district court held that this alleged concern "len[t] significant weight" against an injunction. App. 57a.

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[3] Similarly, petitioners contend that the Federal Circuit must have departed from "abuse of discretion" review because it did not woodenly recite that standard in the opinion. The parties agreed, however, that the abuse of discretion standard of review applied, and therefore, there was no need to state the obvious. Indeed, only two months earlier, the Federal Circuit reiterated that the abuse of discretion standard of review applies to a denial of a permanent injunction. *Fuji Photo*, 394 F.3d at 1380 (affirming denial of a permanent injunction based on the specific facts presented). Yet remarkably, nowhere in petitioners' brief — which purports to canvass the Federal Circuit's alleged wholesale eradication of discretion — do petitioners cite this decision.

The Federal Circuit appropriately rejected this rationale, and stated that a "general concern regarding business-method patents ... is not the type of important public need that justifies the unusual step of denying injunctive relief." App. 26a. It was not the role of the district court, under the guise of "discretion," to determine that an entire class of patents did not merit the relief afforded under the Patent Act.

Second, the Federal Circuit addressed the district court's reasoning that the balance of hardships weighed against an injunction. App. 58a. The district court found that an injunction might result in contentious contempt hearings in the event of an attempted "design around" by petitioners. App. 26a-27a.

Without question, the Federal Circuit's rejection of this basis for denial of an injunction was correct, and petitioners do not even attempt to defend the district court on this point. The district court's rationale was inexplicable, as it appeared to assume that any dispute between the parties over petitioners' continuing post-trial infringement would simply evaporate if the court denied the injunction. The district court suggested, however, that if petitioners continued their infringement, it would consider a request for enhanced damages. App. 59a. But in that event, the very same "contentious" dispute would exist over whether petitioners continued to infringe. The Federal Circuit correctly held that "[a] continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights." App. 27a.

Third, with respect to irreparable harm, the Federal Circuit addressed the district court's conclusion that a grant of a compulsory license (albeit the terms for which the district court provided no guidance) was justified because MercExchange had previously expressed a willingness to

negotiate licenses on a voluntary basis. App. 56a. Thus, MercExchange would not be irreparably harmed because the district court could simply require MercExchange to license these willful infringers.[4] App. 55a. Based on the same reasoning, the district court concluded that MercExchange had an adequate remedy at law. App. 56a.

The Federal Circuit rejected the notion that MercExchange's voluntary licensing meant that it was not irreparably harmed, or that it had an adequate remedy at law. It stated:

> The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

App. 27a.[5]

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[4] The district court also refused to enhance damages or award attorney's fees to MercExchange. App. 67a-72a. Thus, notwithstanding that petitioners' infringement was found willful, they will be required to pay only a reasonable royalty. In other words, they will stand in the same position as if they had willingly entered into a license agreement from the outset.

[5] In addition, the district court's rationale contradicted its separate statement that the public interest weighed against an injunction because, "in a case such as this, the public does not benefit from a

Finally, the district court held — without citation to any authority — that the fact that MercExchange had not moved for a preliminary injunction demonstrated a lack of irreparable harm. App. 55a. The Federal Circuit correctly held that this was not a compelling basis to deny post-trial permanent injunctive relief. App. 27a-28a (holding that requests for preliminary and permanent injunctions are "distinct forms of equitable relief that have different prerequisites and serve entirely different purposes")). Here again, petitioners make no attempt to defend the district court's rationale. To adopt such a rule would create an ill-advised incentive requiring patentees to file motions for preliminary injunctions in order to preserve their rights to permanent relief.

Thus, the Federal Circuit did not disregard traditional equitable considerations. Rather, it found the district court's stated reasons constituted an abuse of discretion.

II. THE FEDERAL CIRCUIT'S JURISPRUDENCE ON PERMANENT INJUNCTIONS IS ENTIRELY CONSISTENT WITH THIS COURT'S PRECEDENT

Reduced to its essentials, petitioners' argument here is that notwithstanding a now binding adjudication of willful patent infringement and validity, they should be able to continue their infringing acts because MercExchange purportedly will not be irreparably harmed and has an

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patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." App. 57a. Clearly, if MercExchange had licensed its patents to others, it had not deprived the public of the benefit of its inventions.

More importantly, the public benefits by the disclosure of the invention through publication of the patent, not its commercialization. *See Kewanee Oil*, 416 U.S. at 480.

adequate remedy at law, *i.e.*, money damages. But this Court long ago recognized the fallacy of this contention.

Indeed, it may have found its earliest roots in a decision by Chief Justice John Marshall in *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 242 (1832), which held that the essential right an inventor receives from a patent is the right to exclude others from its use for the term prescribed by the statute: "And for his exclusive enjoyment of it during that time the public faith is forever pledged."

Chief Justice Marshall had previously addressed the nature of the patent right while riding as a circuit judge in Virginia, explaining that,

> [t]he constitution gives to the legislature a power 'to promote the progress of useful arts, by securing, for limited times, to inventors, the exclusive right to their respective discoveries.' In the exercise of this constitutional power, the legislature has passed an act ... giving to the patentee the exclusive right to make, devise, use, or sell it, for fourteen years from the date of the patent. The constitution and law, taken together, give to the inventor, from the moment of invention, an inchoate property therein, which is completed by suing out a patent. *This inchoate right is exclusive. It can be invaded or impaired by no person. No person can, without the consent of the inventor, acquire a property in the* invention....Were it otherwise, the exclusive right in the discovery which the constitution authorizes congress to secure to the inventor, and the exclusive right to use it after the date of the patent, which the act of congress confers, would not be exclusive, but would be participated with every person who had constructed the machine previous to the emanation of the patent.

Evans v. Jordan, 8 F. Cas. 872, 873 (C.C. Va. 1813) (Marshall, C.J.) (emphasis added), *aff'd*, 13 U.S. (9 Cranch) 199 (1815).

Eleven years later, in *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824), Justice Story emphasized that,

> [t]he securing to inventors of an exclusive right to their inventions, was deemed of so much importance, as a means of promoting the progress of science and the useful arts, that the constitution has expressly delegated to Congress the power to secure such rights to them for a limited period. The inventor has, during this period, a property in his inventions; a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession.

Accordingly, "[t]he patent acts have given to the patentee a right to sue at common law, for damages for any violation of his invention; and have given him a farther right to claim the interference of a Court of equity, *by way of injunction*, to protect the enjoyment of his patent." *Id.* at 608-09 (emphasis added).

Later, in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852), this Court reiterated that "[t]he franchise which the patent grants, consists altogether in the right to exclude everyone from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), this Court had occasion to consider the issue once again:

> It may be well, however, before considering what remedies a patentee is entitled to, to consider what rights are conferred upon him. The source of the rights is, of course, the law, and we are admonished

> at the outset that we must look for the policy of a statute, not in matters outside of it — not to circumstances of expediency and to supposed purposes not expressed by the words. The patent law is the execution of a policy having its first expression in the Constitution, and it may be supposed that all that was deemed necessary to accomplish and safeguard it must have been studied and provided for. *It is worthy of note that all that has been deemed necessary for that purpose, through the experience of years, has been to provide for an exclusive right to inventors to make, use, and vend their inventions.* In other words, the language of complete monopoly has been employed, and though at first only a remedy at law was given for a violation of the right, a remedy in equity was given as early as 1819.

210 U.S. at 423-24 (emphasis added).

In *Continental Paper Bag*, the issue was whether an adjudicated infringer of a valid patent should be allowed to respond at law in damages only. The infringer's argument was predicated upon the fact that the patent owner was not using his invention and, hence, the equitable principle, *i.e.*, irreparable harm to the patent owner, could not be said to exist. The infringer's argument failed. To the suggestion that the absence of immediate competitive harm rendered inappropriate the exclusivity accorded by injunctive relief, this Court responded:

> [W]e answer that such exclusion may be said to have been of the very essence of the right conferred by the patent.

210 U.S. at 429. The Court went on to hold that because of the nature of the patent right, infringement constitutes irreparable harm:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

210 U.S. at 430.[6]

The rationale of *Continental Paper Bag* has withstood the test of time. It was affirmed in *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24 (1923), again in *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100 (1969), and again, in *Dawson Chemical Co. v. Rohm & Haas*, 448 U.S. 175 (1980).

In *Zenith Radio Corp.*, 395 U.S. at 135, this Court reaffirmed this conclusion:

> A patentee has the exclusive right to manufacture, use and sell his invention...The heart of his legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent.

In *Dawson Chemical Co.*, 448 U.S. at 197, this Court again confirmed that the "traditional remedy against ... infringement is the injunction." Citing its earlier decisions in *Continental Paper Bag* and *Zenith*, the Court said:

> [p]etitioners' argument runs contrary to the long-settled view that the essence of a patent grant is the

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[6] Significantly, the Court left open the question whether under certain circumstances, "a court of equity might be justified in withholding relief by injunction" "in view of the public interest." *Continental Paper Bag*, 210 U.S. at 430. This concern still finds its expression in the modern-day decisions of the Federal Circuit. *See* App. 26a.

right to exclude others from profiting by the patented invention.

In the present case, the Federal Circuit did no more than to apply the law long ago settled by this Court. Yet nowhere in the petition is there to be found any discussion of this precedent.

III. THE FEDERAL CIRCUIT HAS FOLLOWED THIS COURT'S PRECEDENT UPHOLDING THE PATENT OWNER'S RIGHT TO EXCLUDE

In the wake of these precedents, it cannot reasonably be said that the Federal Circuit has engaged in a judicial frolic and detour. Rather, since its creation the Federal Circuit has consistently recognized — as had its predecessors — that given the nature of the right, an injunction is appropriate upon a determination of patent infringement, except in rare instances. And in so doing, the Federal Circuit has seamlessly applied the bedrock principles of patent law established by this Court.[7]

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[7] Prior to the creation of the Federal Circuit, it was well understood that permanent injunctive relief was the norm, with few exceptions, upon a finding of infringement. *See* I. Kayton, KAYTON ON PATENTS, Ch. 1, pp. 20-21 (1979) ("This injunctive relief by the court is the endorsement by the state which is required by the property label above....The state may and does, *on rare occasions,* refuse to grant an injunction....Thus, in the patent situation there have been *rare instances* when the court has awarded damages to the patentee but has refused to grant an injunction.") (emphasis added); Herbert F. Schwartz, Note, Injunctive Relief in Patent Infringement Suits, 112 U. Pa. L. Rev. 1025, 1048 (1964) ("upon proof of title, infringement, and validity at final trial, courts have invariably granted permanent injunctions, save in the very narrow areas of grossly disparate harm and public inconvenience"); Notes, The Enforcement of Rights Against Patent Infringers, 72 Harv. L. Rev. 328, 342 (1958) ("Once the issues have been finally adjudicated in the plaintiff's favor, a permanent injunction is

Thus, in 1983, one year after the Federal Circuit's creation, the court recognized that "[t]he grant of a patent is the grant of the right to invoke the state's power in order to exclude others from utilizing the patentee's discovery without his consent." *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577 (Fed. Cir. 1983) (citing *Zenith Radio Corp.*, 395 U.S. at 135; *Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225, 229 (1964); and *Continental Paper Bag*, 210 U.S. at 430)).

The court explained:

> Without this injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the "leverage," afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Id. at 1577-78 (citations omitted).

Applying these principles, the Federal Circuit held that "where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed. To hold otherwise would be contrary to

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usually granted as a matter of course. However, on rare occasions the courts have refused this relief when the nature of the injury was trifling or when the defendant would have suffered injury out of all proportion to the value of protecting the patentee's monopoly, provided the defendant was capable of responding in damages.").

the public policy underlying the patent laws." *Id.* at 1581 (citations omitted).

The following year, the Court instructed that the grant of an injunction was not mandatory, but was a matter of discretion depending on the equities of the case. *Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858, 865 (Fed. Cir. 1984), *superseded on other grounds, by statute*, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs. v. C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992).[8]

The Federal Circuit also acknowledged that circumstances will arise that warrant denial of an injunction. In a 1995 decision the Court — sitting *en banc* — commented, "[i]f a patentee's failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent." *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (*en banc*). Accordingly, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Id.*[9]

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[8] The court remanded to consider whether an injunction was appropriate based on the facts that the patent had expired, the parties had presented the case as a "test" of the experimental use defense, and the defendant had even notified the plaintiff of what it was doing at all times so that the patentee could act promptly to defend its rights. *Id.* at 865-66.

[9] Petitioners engage in a lengthy discussion of *Hecht Co. v. Bowles*, 321 U.S. 321 (1944), *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), *Amoco Production Co. v. Gambell*, 480 U.S. 531 (1987), and *United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483 (2001), for the unremarkable proposition that Congress may legislate remedial schemes that permit courts to exercise equitable discretion. Certainly Congress may, and has done so. MercExchange does not contend that Congress did anything other than grant courts discretion to issue injunctions to prevent the violation of the right conferred by a patent. The Federal Circuit has repeatedly acknowledged as much. *See, e.g.*,

The Federal Circuit has cited with approval decisions of predecessor courts in which the facts of the case warranted withholding an injunction based on the public interest. *Rite Hite*, 56 F.3d at 1547-48. In one such case, a court denied the injunction because it would have closed the City of Milwaukee's sewage plant, allowing the entire community's raw sewage to run into Lake Michigan, at considerable detriment to the public health. *City of Milwaukee* v. *Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir. 1934). In another case, a court denied injunctive relief where the patent covered a process for treating rickets through irradiation of margarine, referred to as "the butter of the poor." *Vitamin Techs., Inc. v. Wisconsin Alumni Research Found.*, 146 F.2d 941, 945 (9th Cir. 1945).

Roche Prods., 733 F.2d at 865 ("Section 283, by its terms, clearly makes the issuance of an injunction discretionary.").

Petitioners' "*may*" versus "*shall*" argument therefore misses the point. The fundamental difference between these cases, and the instant case, is that the statutory scheme involved in the Patent Act involves the fundamental "right to exclude." In contrast, *Hecht*, *Romero-Barcelo*, *Gambell* and *Oakland Cannabis Buyers' Coop.* dealt only with statutes addressed to policies of general public concern, not a personal property right.

In *TVA v. Hill*, 437 U.S. 153 (1978), however, this Court held that the statute involved, the Endangered Species Act, required the district court to enjoin a violation of the statute. *See id.* at 173. This Court observed that refusal to enjoin the violation would have ignored the "explicit provisions" of the Act. *Id.* Thus, the purpose and language of the statute limited the remedies available to the district court: "Only an injunction could vindicate the objectives of the Act." *See Romero-Barcelo*, 456 U.S. at 314. Similarly, the objective of the Patent Act is to promote the progress of science and useful arts, "by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development." *Kewanee Oil Company*, 416 U.S. at 480. Like *Hill*, only an injunction can vindicate the objective of that Act.

The court applied these principles in a consistent manner, stating in 1988, "[a]lthough the district court's grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted." *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988). Further, "[t]his court has indicated that an injunction should issue once infringement has been established unless there is a sufficient reason for denying it." *Id.* In *Garlock*, in the absence of "very persuasive" evidence that further infringement would not take place, the Court held that it was an abuse of discretion to deny a permanent injunction. *Id.* 1281-82.

And by 1989, the Federal Circuit stated that "[i]nfringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property." *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). The court declared the now oft-cited rule that "[i]t is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." *Id.* at 1247.

These statements are no different from the principles articulated and applied by the Federal Circuit in this case. App. 26a ("Because the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged"). These precedents of the Federal Circuit have existed for over twenty years. Yet Congress has not seen fit to alter the injunction provision in response to some perceived error of interpretation by the Federal Circuit.

IV. THERE IS NO DIVISION OF AUTHORITY WITH RESPECT TO OTHER INTELLECTUAL PROPERTY STATUTES THAT MERITS THIS COURT'S REVIEW

Petitioners attempt to contrive a division of law between the Federal Circuit and other federal appellate courts by arguing that the standards for permanent injunctions in trademark and copyright cases are different than the Federal Circuit utilizes in patent cases. However, courts typically provide permanent injunctive relief in trademark and copyright cases upon a finding of infringement, just as in patent cases.

Federal courts have characterized the permanent injunction as the "remedy of choice for trademark and unfair competition cases, since there is no adequate remedy at law for the injury caused by a defendant's continuing infringement." *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988); *see also William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531 (1924) ("[t]he charge of unfair competition being established, it follows that equity will afford relief by injunction to prevent such unfair competition for the future").

In language that echoes unmistakably these principles, the leading treatise on trademark law states:

> If a defendant has been found to be committing acts which constitute unfair competition, there seems little doubt that money damages are "inadequate" to compensate plaintiff for continuing acts of defendant.
>
> ****
>
> It is difficult to imagine an unfair competition case where damages are adequate to remedy the problem of defendant's continued acts. If an injunction were denied, the court would be telling the plaintiff to sit by and watch defendant continue to violate the law

> and infringe upon plaintiff's rights until such time as plaintiff decided to sue again for money damages as compensation for the past injury occurred. Thus, an injunction is the standard remedy in unfair competition cases.
>
> ****
>
> The imposition of a compulsory license, permitting the infringer to continue by paying a court-determined royalty to the trademark owner is not a proper remedy.

5 J. McCarthy, Trademarks and Unfair Competition, §§ 30:2, p. 30-6-30-7 (4th ed. 2005).

And likewise, permanent injunctions are widely acknowledged as the appropriate remedy in copyright infringement cases. *See Taylor Corp. v. Four Seasons Greetings, LLC*, 403 F.3d 958, 968 (8th Cir. 2005) (stating that injunctions in copyright cases "regularly are issued...because denial of injunction would otherwise amount to "'forced license to use the creative work of another,'" and because irreparable harm "inescapably flows from denial of [the] right [to control the use of copyrighted materials]"); *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 849 (11th Cir. 1990) ("injunctive relief is a common judicial response to infringement of a valid copyright").

Accordingly, "as a general rule, a copyright plaintiff is entitled to a permanent injunction when liability has been established and there is a threat of continuing violations." *L'Anza Research Int'l, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1120 (9th Cir. 1996); *Walt Disney Co. v. Powell*, 897 F.2d 565, 567-68 (D.C. Cir. 1990) ("[w]hen a copyright plaintiff has established a threat of continuing infringement, he is *entitled* to an injunction.") (emphasis in original).

The sole alleged substantive difference that petitioners identify is the consideration of whether there is a threat of continued infringement when determining whether an injunction should enter. However, this argument is wholly irrelevant to this case — indeed, petitioners have continued their willful infringement unabated since trial.

In fact, there is no record evidence that petitioners do not pose a threat of continued infringement. An infringer may not avoid an injunction by a mere *ipse dixit* declaration that it has ceased infringement. *See, e.g., William R. Warner & Co.*, 265 U.S. at 531 ("[s]everal acts of unfair competition having been shown, we are warranted in concluding that petitioner is willing to continue that course of conduct, unless restrained"); *Lyons Partnership, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 800-01 (4th Cir. 2001) (district court improperly denied permanent injunction in copyright and trademark case when denial was based upon defendant's supposed "voluntary cessation" of infringement). Moreover, there is no inconsistency between these decisions and the approach taken by the Federal Circuit in patent cases. *See Garlock*, 842 F.2d at 1281-82 (infringer's allegation that it had ceased infringement required "very persuasive" evidence that further infringement would not take place).[10]

Petitioners fail to show any division between the federal courts pertaining to permanent injunctions in intellectual property cases that merits this Court's review.

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[10] As the court stated, "[i]f the defendant be honest in his protestations an injunction will do him no harm; if he be dishonest the court should place a strong hand upon him...." (*quoting General Elec. Co. v. New Eng. Elec. Mfg. Co.*, 128 F. 738, 740 (2d Cir. 1904)).

V. PETITIONERS' WILLFUL INFRINGEMENT PROVIDES NO CAUSE FOR THIS COURT TO UPSET THE ECONOMIC INCENTIVES OF THE PATENT LAWS

Without question, the remedy of permanent injunctive relief under the patents laws has significance to the national economy. But the appropriate balance of economic incentives under the patent laws — as reflected through the availability of injunctive relief — is a question that has long been settled by Congress and this Court. Their "economic" arguments are nothing more than a plea that the Court reduce in a discriminatory fashion what leverage small and undercapitalized patentees have when negotiating licenses for their patents with large, well-capitalized infringers.

Indeed, it is somewhat startling to hear petitioners purporting to importune the Court on behalf of the nation's "innovators." The innovator in this case, as the jury clearly found, is MercExchange, and petitioners are willful infringers of its patents.

It is entirely appropriate, therefore, and wholly in accord with traditional equitable principles that petitioners find themselves now facing a self-described "Hobson's choice."[11]

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[11] As noted above, nine months after the conclusion of the trial, eBay initiated reexamination proceedings with the PTO. Petitioners suggest that the possibility that the '265 Patent may be invalidated through such a proceeding demonstrates the inequity of enjoining their continued infringement.

Petitioners' argument, however, proves too much. Under their logic, a court should never enter an injunction because there is always a possibility that the patents could be held invalid in a later enforcement action. Any such finding in subsequent litigation would constitute collateral estoppel against the patentee. *Blonder-Tongue Labs., Inc. v. University of Illinois Foundation*, 402 U.S. 313, 350 (1971). Thus, under Petitioners' argument, even willful infringement could never be enjoined.

Moreover, petitioners' anecdotal evidence of the threat of so-called "NPEs" likewise fails to provide a basis for this Court to upset the careful economic balance under the patent laws that Congress has recognized as essential to promoting innovation. Simply stated, petitioners boldly invite this Court to place its thumb on the scales of justice in patent litigation to reduce the leverage that a patentee possesses when negotiating with an infringer. And as MercExchange is not an NPE, this case is a poor vehicle for a referendum on that issue.

First, there are compelling economic arguments in favor of a general policy of granting injunctive relief in most patent infringement cases:

> The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations — whether they end in a license at a particular royalty or in the exclusion of an infringer from the market — is much preferable to a judicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy....

In re Mahurkar Patent Lit., 831 F. Supp. 1354, 1397 (N.D. Ill. 1993), *aff'd*, 71 F.3d 1573 (Fed. Cir. 1995); *accord* KAYTON, *supra*, at 1-21, ("the exclusionary right is a necessary factor in a free-market society. It genuinely determines the market price based upon supply and demand").

Second, denial of the statutory right to exclude others will result in diminished incentives for patentees to innovate, and an attendant increase in the incentive for others to infringe. Conversely, depriving patentees that have licensed their patents to others of the right to exclude — as did the district court in this case — would create an unwise incentive for patentees to refrain from licensing, and would

thereby encourage litigation. Clearly, fear that licensing of a patent would deprive the patentee of injunctive relief would cause any patentee to think twice before granting a license, and would lower the market value of any patent for which a license has been granted. As a result, the inventor instead would likely choose to maintain the invention as a trade secret or forego engaging in research and development efforts altogether, thus depriving the public of knowledge of the invention.

Third, the Patent Act protects the patent rights of all patent owners equally, including individual inventors and small entities. As a result, individual inventors, small firms, and start-up companies that invent something of value, but which lack the means to commercialize their inventions, instead can license or sell their inventions to other firms which do have the resources to bring the inventions to market. Alternatively, patent rights may assist small entities in securing the financing needed to successfully commercialize their inventions, thereby enhancing competition by facilitating the entry of these small entities into the marketplace. *See* Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 2, 4-7 (2003).

Without the right to obtain injunctive relief against adjudicated infringers, however, such small firms and independent inventors, who already face great difficulty in commercializing their inventions, would be unable to license or sell their inventions to other entities or attract investors because their inventions will have little or no value. *See King Instr. Corp. v. Perego*, 65 F.3d 941, 949 (Fed. Cir. 1995).

Fourth, contrary to petitioners' contentions, without injunctive relief, there will be an increase, rather than a decrease, in litigation because there would be incentives to infringe rather than respect a patent owner's rights.

Infringers such as petitioners will choose to infringe calculating that the patent owner will lack the resources to bring them to justice.

Without injunctive relief, the infringer could force the patent owner to bring a succession of enforcement actions, or otherwise forfeit his statutory protection completely. The necessity of multiple infringement suits to protect patent rights from continuing violations would place further burdens upon our courts and would force patent owners to expend ever-increasing resources to protect assets of decreasing value.[12]

Continental Paper Bag, and its progeny, should not be overturned under the facts of this case.

CONCLUSION

For the foregoing reasons, the Petition should be denied.

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[12] Recurring infringement suits are likely to be significantly more expensive and protracted than a streamlined contempt proceeding that might be conducted to enforce an injunction.

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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REPLY BRIEF OF PETITIONER

In their petition, eBay Inc. and Half.com, Inc. ("eBay") have demonstrated that the Federal Circuit's holding in this case sets out, with a minor exception for public health risks, an irrebuttable presumption that a permanent injunction should follow a finding of patent infringement. This restriction on the traditional equitable powers of a district court flouts both the plain language of the Patent Act, 35 U.S.C. § 283, and this Court's unmistakable instruction that only Congress, and not a court of appeals, can limit the equitable discretion of the lower courts. In believing that the Federal Circuit's error of law presents an exceptionally strong case for this Court's review, eBay is joined by numerous *amici*, including the nation's leading intellectual property professors and a host of affected companies in the technology, manufacturing, energy, and financial services sectors. Those submissions alone warrant this Court's review of the important holding below in this case.

The opposition briefs filed by Respondent MercExchange, L.L.C. ("MercExchange") and its *amici* do not offer a single reason to doubt the need for this Court's review. First, there is no merit to MercExchange's contention that *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), decided the issue presented. That decision merely holds what eBay has never denied: that a patent offers a right to exclude and that the traditional remedy for the prevention of future patent infringement is an injunction. But, the question presented by this petition pertains not to whether a post-infringement injunction is ever appropriate—it typically is—but whether, as the Federal Circuit has commanded, an injunction must follow automatically without consideration of the traditional prerequisites for the grant of equitable relief. None of the cases cited by MercExchange, including *Continental Paper Bag*, justifies the Federal Circuit's rule that departs from the language of the statute.

Second, MercExchange contends that the Federal Circuit leaves district courts with the discretion required by § 283 because it permits denying permanent injunctions in exceptional circumstances. But, as this Court has held, tolerating the denial of injunctive relief only in such "rare instances" would render "discretion" a meaningless concept. App. 26a; *Amoco Prod. Co.* v. *Vill. of Gambell, Alaska*, 480 U.S. 531, 544 (1987).

Third, eBay's petition identified a series of this Court's decisions admonishing courts of appeals not to limit equitable discretion absent clear Congressional intent. Pet. 19-22; *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001); *Amoco Prod.*, 480 U.S. at 544; *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 311-13 (1982); *Hecht Co.* v. *Bowles*, 321 U.S. 321, 329-30 (1944). MercExchange contends that these decisions have no force with respect to property rights such as patents. This view is mistaken. This Court and various other courts of appeals have interpreted similar intellectual property statutes as barring precisely the *per se* approach the Federal Circuit has adopted with respect to patents.

Fourth, MercExchange argues that disturbing the Federal Circuit's rule will have disastrous consequences for the patent system. This argument rests on the fiction that eBay seeks to deny patentees access to injunctive relief. Ultimately, however, eBay, along with numerous *amici* supporting the petition, have shown that dismantling the Federal Circuit's automatic rule will strengthen the patent system and the nation's economy.

Given the Federal Circuit's exclusive jurisdiction over patent disputes, this Court's review is necessary to correct this misconstruction of the Patent Act and its unwarranted limitation on equity.

1. MercExchange, along with its *amici*, which apparently recognize the importance of the issue, argue that *Continental Paper Bag* justifies the Federal Circuit's special rule for

patent injunctions. Opp. 8, 16-19; Qualcomm Br. 7. MercExchange and its *amici*, however, read far too much into the following language:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

Cont'l Paper Bag, 210 U.S. at 430.

In *Continental Paper Bag*, the petitioner sought to deny injunctive relief to patentees on the theory that they were unreasonably refusing to allow their inventions to be used. In rejecting this argument, this Court noted that patentees, including those that did not practice their inventions, enjoyed not only a "right to exclude" others from use of the invention, but also they had available to them the injunctive powers of the equity courts to safeguard that right. *Id.* at 425.

Yet, the right to exclude that inheres in a patent does not justify a mandatory injunction rule.[1] Patent holders enjoyed their right to exclude for nearly 30 years before Congress added an injunctive relief provision to the Patent Act. Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481-82. In doing so, Congress readily could have chosen to make injunctive relief mandatory. Congress instead chose to attach the condition that injunctions should issue only "according to the course and principles of courts of equity." *Id.* at 481; see also 35 U.S.C. § 283 ("in accordance with the principles of equity").

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[1] MercExchange's reliance on the right to exclude is ironic given the district court's factual finding that MercExchange clearly expressed its intention not to exclude, but to license its patent for a fee. App. 54a. When "it is recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue." *Nerney* v. *N.Y., New Haven & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1936); *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

Thus, all that *Continental Paper Bag* holds is that injunctive relief is a critical means by which a patentee can protect its right to exclude.

But the decision also strongly suggests that, consistent with § 283, courts must consider the ordinary rules of equity before granting an injunction. In the very same passage relied upon by MercExchange and its *amici*, this Court tied the availability of a patent injunction to the "well-recognized grounds of equity jurisdiction," which included such grounds as multiple "trespasses and continuing wrongs and the vexation of many actions." *Cont'l Paper Bag*, 210 U.S. at 430. Further, the Court observed that, while an injunction could not be categorically denied to non-using patentees, "[w]hether, however, a case cannot arise where, *regarding the situation of the parties in view of the public interest*, a court of equity might be justified in withholding relief by injunction we do not decide." *Id.* (emphasis added). This formulation directs courts to consider *both* the interests of parties and the public and sums up the traditional four-factor test for equitable relief: irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13. By contrast, the Federal Circuit's rule mandates an injunction, irrespective of the situation of the parties, and permits an exception only "'in order to protect the public interest.'" App. 26a.

Accordingly, *Continental Paper Bag* hardly creates a wooden presumption in favor of injunctions, much less an irrebuttable one.[2]

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[2] Nor do this Court's decisions support MercExchange's wishful reading. In both *Zenith Radio Corp.* v. *Hazeltine Research*, 395 U.S. 100, 135 (1969), and *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923), this Court only cited *Continental Paper Bag* for the uncontroversial holding that a patent confers a legal monopoly with a right to exclude others from making or using the invention. This Court has never suggested that there is a mandatory rule for injunctions. Moreover, in *Smith International, Inc.* v. *Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir.

2. MercExchange concedes that § 283 vests discretion in district courts to grant injunctive relief according to equitable principles. Opp. 21 n.9. However, it contends that the Federal Circuit already provides that discretion to the district courts. *Id.* at 8-9. But, the Federal Circuit's narrow exception to its *per se* rule, where a court can deny an injunction that would adversely affect the public interest, is not a meaningful exercise of equitable discretion.

At the outset, MercExchange's view that the Federal Circuit's mandatory injunction rule has been "consistently recognized" by that court is flatly wrong. *Id.* at 19. In its early days, the Federal Circuit held that injunctions should only issue according to "historic equity principles." *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 867 (Fed. Cir. 1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs.* v. *C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992). The court based its conclusion on the nonmandatory language of § 283 and this Court's admonition against curbing equitable discretion absent a clear textual warrant. *Id.* at 865-66 (citing *Hecht*, 321 U.S. at 321). Over the years, however, the Federal Circuit's doctrine on patent injunctions has evolved into an unyielding rule, unmoored from the text and decisions of this Court. Now, "'the general rule is that a permanent injunction will issue once infringement and validity have been adjudged'" except when denying an injunction is necessary to protect the public interest. See, *e.g.*, *Mallinckrodt, Inc.* v. *Masimo Corp.*, 2005 WL 2139867, at *17 (Fed. Cir. Sept. 7, 2005) (reversing a district court's denial of a permanent injunction and citing *MercExchange, L.L.C.* v. *eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005)).

1983), the Federal Circuit cited to *Continental Paper Bag* with respect to injunctive relief, and yet expressly instructed district courts to employ traditional equitable analysis before issuing an injunction. *Id.* at 1579 (noting that "the trial court should balance the requisite [equitable] factors.").

MercExchange attempts to characterize the narrow "public interest" exception to the Federal Circuit's *per se* rule as embodying the exercise of equitable discretion. Opp. 8-9, 19-23. MercExchange is wrong. Indeed, this Court has struck down a strikingly similar rule as an undue restriction on a court's equitable discretion. The Ninth Circuit had held that "injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances." *People of Vill. of Gambell* v. *Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985). The exception for "rare or unusual circumstances" did not prevent this Court from rejecting the court of appeals' rule as an unwarranted limitation on a federal court's traditional equitable discretion. *Amoco Prod.*, 480 U.S. at 541. Likewise, here, the "public interest" exception, which the Federal Circuit has itself described as "rare," is a plainly insufficient substitute for equitable discretion. App. 26a ("'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest'"). The Federal Circuit has therefore restricted the courts' equitable discretion in stark violation of this Court's precedents. *Oakland Cannabis*, 532 U.S. at 496; *Romero-Barcelo*, 456 U.S. at 305; *Hecht Co.*, 321 U.S. at 321.

3. MercExchange's attempts to avoid the effect of these decisions should be rejected. First, MercExchange states that eBay has cited to these cases "for the unremarkable proposition that Congress may legislate remedial schemes that permit courts to exercise equitable discretion." Opp. 21 n.9. That is not the holding of these cases and that is not what eBay argued. As discussed in the petition, these decisions hold that a court of appeals cannot limit the equitable discretion of a federal court in favor of a *per se* rule, absent a Congressional mandate. Those cases are on point and undermine the Federal Circuit's rule.

Second, MercExchange contends that those cases "dealt only with statutes addressed to policies of general public concern, not a personal property right." *Id.* at 22 n.9. This is

a meaningless distinction. Copyrights, which like patents confer a property right—including the right to exclude—are subject to a similarly worded injunctive relief provision. 17 U.S.C. § 502 (a court "may" enjoin infringement). And, in contrast to the Federal Circuit's misreading of § 283, this Court has interpreted this discretionary language in the Copyright Act to mean that injunctive relief need not issue as a matter of course after a finding of a violation. *N.Y. Times Co.* v. *Tasini*, 533 U.S. 483, 505 (2001) (citing *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, n.10 (1994)).[3]

In addition to the Copyright Act, the Lanham Act also contains an injunctive relief provision for trademark violations that echoes the language contained in § 283. 15 U.S.C. § 1116(a) ("power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable"). Various courts of appeals have interpreted both of these analogous intellectual property provisions to vest a district court with equitable discretion. Injunctions, these courts have held, are not the automatic result of infringement; instead, the relief is conditioned upon a thorough consideration of the traditional equitable factors, including continuing infringement.[4] See *Silverstein* v. *Penguin*

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[3] MercExchange's attempt to torture the plain language of § 283 should likewise be rejected. MercExchange contends that the Congress' use of "may" in § 283, as opposed to "shall," means something different in the context of the Patent Act because a patent involves the "right to exclude." Opp. 22 n.9. Tellingly, MercExchange adverts to no cases that support its newly minted canon of construction. This Court certainly has not created a property law exception to the ordinary rule of statutory interpretation that "'may' expressly recognizes substantial discretion." *Haig* v. *Agee*, 453 U.S. 280, 295 n.26 (1981).

[4] MercExchange acknowledges that the Federal Circuit's rule differs from these cases, including the absence of a continuing infringement requirement. But it contends that this distinction is "wholly irrelevant to this case" because it alleges Petitioners have "continued their willful infringement unabated since trial." Opp. 26. eBay denies this unsupported allegation. Moreover, MercExchange cannot make up for the lapse in the Federal Circuit's general rule by having this Court make a factual

Putnam, Inc., 368 F.3d 77, 84 (2d Cir.) (denying injunctive relief and holding that under the Copyright Act § 502 "injunctive relief to enforce a copyright is not compelled"), *cert. denied*, 125 S. Ct. 815 (2004); *Burndy Corp.* v. *Teledyne Indus., Inc.*, 748 F.2d 767, 772 (2d Cir. 1984) (permanent injunctions will be granted "only upon proof of the likelihood that purchasers of the product may be misled in the future") (Lanham Act). These decisions not only conflict in principle with the decision announced below, they indicate that but for the Federal Circuit's exclusive jurisdiction to hear patent appeals, a patent defendant would not labor under such a mandatory injunction rule. See *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (the Second Circuit interpreting § 283 to hold that "[a]n injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined under the circumstances.").

MercExchange tries to minimize the import of these cases by noting that "courts typically provide permanent injunctive relief in trademark and copyright cases upon a finding of infringement, just as in patent cases." Opp. 24. This assertion may be true, but it is beside the point.

eBay readily concedes that if the Federal Circuit's rule were lifted, the traditional prerequisites for injunctive relief would often be met. Pet. 26. But there clearly are instances, such as this case, when the *per se* rule would dictate that an injunction should issue, even when the equities of a particular case counsel otherwise. Here, after carefully weighing the facts and noting the "atypical" and "highly unusual" nature of this case, the district court correctly declined to grant an injunction. App. 52-59a. The district court thus was faithful to the letter and the spirit of § 283. This is because in obligating courts to employ equitable principles, Congress demanded

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finding based on its bald assertion. Axiomatically, "[t]he Supreme Court ordinarily does not sit to decide questions of fact." 20 Charles A. Wright & Mary K. Kane, *Federal Practice and Procedure* § 115, at 1083 (2002).

case-specific consideration. *Romero-Barcelo*, 456 U.S. at 312 ("[t]he essence of equity jurisdiction has been the power ... to mould each decree to the necessities of the particular case.").

4. In its petition, eBay explained why the Federal Circuit's *per se* rule imposes tremendous costs to the Nation's economy. That view has now been echoed by numerous *amici* who have written in support of certiorari. However, MercExchange asserts that disturbing the Federal Circuit's general rule would lead to calamitous results. But it arrives at this conclusion by arguing against a petition of its own invention: one which seeks categorically to deny injunctions to patentees; to establish a compulsory licensing system; and, to eliminate a patentee's right to exclude others from use of the patent. Opp. 5, 28-29.

eBay's petition, neither expressly nor impliedly, seeks these changes to the patent system. Nor would eBay and its several *amici*, as holders of valuable patents, seek to undermine patent protection. Rather, eBay has sought this Court's review of the Federal Circuit's misconstruction of § 283. Reclaiming the role of equitable discretion in patent injunctions would undoubtedly benefit the significantly expanding patent system, and would aid district courts as they confront the challenges posed by ill-defined patents and claims brought by patent assertion companies. The sky would assuredly not fall on patentees.

In any event, both MercExchange and eBay argue on this common ground: the debate over the proper rule concerning the grant of patent injunctions implicates vital aspects of the patent system. Thus, this Court should grant review to settle this question of exceptional importance to the nation's economy that prompted *amici* on both sides to expend valuable resources in briefing the issue in this case.

5. Finally, *amici* in support of MercExchange advance two arguments that can be easily dismissed. First, they argue that this Court should refrain from reviewing this case because

"th[is] issue is actively under consideration by the Legislative Branch." Qualcomm Br. 12. This is false. Congress is considering changes to the patent system, but the pending legislative proposal does not implicate the injunctive relief provision of the Patent Act. *Legislative Hearing on the "Amendment in the Nature of a Substitute to H.R. 2795, the 'Patent Act of 2005,'" before the Subcomm. on Courts, the Internet, & Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005) (statement of John R. Thomas, Georgetown University), *available at* http://judiciary.house.gov/media/pdfs/thomas091505.pdf, at 5. The changes contemplated by the various subcommittees will have no affect on this litigation.

Second, *amici* on behalf of MercExchange argue that the Patent and Trademark Office's reexamination proceedings serve as a basis for denying this petition. But *amici* themselves acknowledge that "the administrative proceedings have not reached the stage of a final determination of invalidity." Qualcomm Br. 13. Arriving at this final stage is a lengthy process. As noted in eBay's petition, a determination by the PTO during reexamination will not be a final adjudication on patent validity until any appeal, to the Federal Circuit directly or to the United States District Court for the District of Columbia, has been concluded. 35 U.S.C. § 307(a); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991). Thus, not only is the result of the reexamination uncertain, the determination will only have effect sometime in the future. In the meantime, absent review and reversal by this Court, eBay will be subject to an unfair and unwise injunction that does violence to the plain language of Section 283.

CONCLUSION

For the foregoing reasons, and for the reasons stated in the petition for certiorari, the petition should be granted.

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EBAY, INC.,

Petitioner,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMERICA ONLINE, INC., APPLIED MATERIALS, INC., CHEVRON CORPORATION, CISCO SYSTEMS, INC., GOOGLE INC., SHELL OIL COMPANY, AND VISA U.S.A. INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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INTERESTS OF *AMICI CURIAE* [1]

Amici are leading providers of goods and services in several different industries. The goods that they manufacture, distribute, and use to provide services contain numerous subsidiary components, many of which are patented. In addition, the processes used to make these components, and to produce *amici*'s final products, are often themselves patented.

As holders and licensees of valuable patents that are integral to their business, *amici* are keenly aware of the need for effective remedies against infringement, and we strongly support the availability of injunctive relief in appropriate cases. At the same time, however, *amici* are also frequently the subject of patent suits, including many frivolous or abusive ones brought in hopes of coercing lucrative settlements. Because *amici* cannot predict on which side of the caption their next patent suits will find them, we are interested in ensuring that the remedial rules governing patent cases are fair to both plaintiffs and defendants.

Amicus America Online, Inc. ("AOL") is a leader in providing Internet products and services. Operator of the largest online community in the world, AOL provides interactive services, web brands, Internet technologies and e-commerce services. It uses software to provide many of these services, including the AOL, Netscape, and Compuserve browsers, as well as the AIM and ICQ instant messenger programs. AOL holds many patents related to its software and services.

Amicus Applied Materials, Inc. is a leader in the computer and information infrastructure industry. It is the world's largest supplier of products and services to the global semicon-

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[1] Counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court. No counsel for either party had any role in authoring this brief, and no person other than the named *amici* and their counsel has made any monetary contribution to the preparation and submission of this brief. *See* Rule 37 & 37.6.

ductor industry. It frequently is responsible for innovations in the processing and manufacturing technology that helps semiconductor manufacturers produce the world's most advanced chips and LCD flat panel displays. Even the most basic of these manufacturing systems contains dozens of patented and patentable elements.

Amicus Cisco Systems, Inc. is a recognized leader in Internet technology. It sells software, hardware such as routers and switches, and services that together provide fast, durable, and secure networks over the Internet for business, education, government, and home communications. These products also incorporate many patented components and processes.

Amicus Google Inc. is a global technology leader whose mission is to organize information and make it universally accessible and useful. Google maintains one of the world's largest online indices of websites and other content, which is freely available to anyone with an Internet connection. Its automated search technology helps people obtain nearly instant access to relevant information from its vast online index, and its AdWords program provides targeted, online advertising for the products and services of its partners. In providing these products and services, Google uses many patented technologies.

Amici Chevron Corporation and Shell Oil Company are leaders in the energy industry. Chevron explores for and produces oil and natural gas, including complex deep water exploration and production in the Gulf of Mexico and around the world. Chevron also transports natural gas in the United States through pipeline systems and liquefied natural gas around the world in special tankers; refines oil into fuels, lubricants, and base chemicals; and develops several advanced energy technologies such as fuel cells, hydrogen storage and gas-to-liquid products. *Amicus* Shell engages in similar exploration, production, refinement, and transportation activities. In addition, Shell develops and employs

technologies relating to wind energy generation, solar photovoltaic, and other alternative energy sources including biofuels, geothermal and hydrogen. The activities of both Chevron and Shell involve multiple complex processes, nearly all of which are subjects of numerous patents, owned either by *amici* or third parties. In addition, the products manufactured and sold by Shell and Chevron frequently contain patented components, such as additive packages.

Amicus Visa U.S.A. Inc. is part of a worldwide association of more than 21,000 financial institutions that individually offer Visa-brand payment services, including Visa-brand credit cards. These services include an extensive system for approving and processing charges involving millions of merchants and cardholders as well as thousands of banks every day. Multiple components of this system, including a range of business methods and technological features, consist of or contain patented elements.

Amici are troubled by the Federal Circuit's ruling below that a plaintiff is virtually always entitled to injunctive relief whenever it shows patent infringement—without regard to the equities of the individual case. This decision concerns *amici* because the rigid rule below might force courts to grant unnecessary and grossly inequitable relief, especially when applied to complex goods and services. Because such relief creates potentially huge windfalls for patent owners, the rule will likely encourage an increase in abusive patent litigation, which burdens the courts and undermines the goals of the patent system. Accordingly, *amici* urge the Court to take this case to reverse the ruling below and to restore a fairer, more flexible standard for injunctive relief in patent infringement cases.

SUMMARY OF ARGUMENT

The Federal Circuit's decision to require injunctions virtually automatically upon a finding of patent infringement

departs radically from the traditional standard governing injunctive relief. Although Congress specifically authorized courts to issue injunctions in patent cases, it did not require courts to impose injunctions automatically upon a finding of infringement. To the contrary, the Patent Act provides that courts "*may*" grant injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283 (emphasis added).

Traditionally, courts have interpreted this statutory language to confer the same equitable discretion in patent cases that is enjoyed in other types of cases. *See, e.g., Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) ("An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances."). Although the Federal Circuit initially appeared to recognize this discretion,[2] in the decision below it held that, upon a finding of patent infringement, courts must grant injunctive relief absent an overriding public interest. It thus deprived courts of any discretion to consider the private equities in the case.

Amici wholeheartedly agree with Petitioners that the proper standard for patent injunctions is an issue of exceptional importance warranting this Court's attention, that the Federal Circuit's rigid rule is wrong, and that a more flexible standard should be employed. Pet. at 13-22, 25-27. We submit this brief to highlight the deleterious effects that the Federal Circuit's rigid rule would have on providers of complex goods and services, as well as the court system, if left in place by this Court.

By effectively eliminating equitable discretion over injunctive relief, the decision below opens the door to grossly inequitable injunctions that will exacerbate the growing prob-

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[2] *See Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs. v. C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992).

lem of abusive patent litigation. Of particular concern to *amici* are those instances in which a court will be compelled to grant injunctive relief based upon infringement by a minor element of a complex good or service. Such injunctions can impose enormous costs wholly unrelated to the value of the patent infringed because they force manufacturers to retool entire complex processes. Appellate review is inadequate to prevent these costs because an injunction might be in place for years before a wrongfully decided infringement, validity, and/or claim construction determination is reversed. The threat of such costs will enable unscrupulous plaintiffs, many of whom are well-financed and experienced patent litigants, to leverage patents of little or no value into massive settlements. The automatic injunction rule hands a powerful club to such litigants, inviting abusive patent litigation.

The adverse impact of the automatic injunction rule cannot be overstated. The courts are already overstretched by the rise of professional patent litigants and the related increase in patent litigation over the last two decades. By making otherwise frivolous litigation economically attractive and escalating the potential recovery in other cases, the rule adopted below will profoundly exacerbate this problem. Defending against the abusive litigation encouraged by the decision will further divert resources that could be used to develop innovative new products and processes, and distort the focus of the research that does take place, undermining the very innovation that patent law is intended to promote.

These costs are entirely avoidable if courts are permitted to continue to weigh the equities in considering injunctive relief in patent cases as they do in other cases and as Congress has expressly instructed them to do in patent cases. Accordingly, *amici* respectfully urge this Court to review the decision below, reject its rigid rule, and adopt a more flexible standard for patent injunctions.

ARGUMENT

THE FEDERAL CIRCUIT'S DETERMINATION THAT INJUNCTIVE RELIEF MUST ISSUE WHENEVER A PATENT HAS BEEN INFRINGED RAISES A QUESTION OF THE UTMOST IMPORTANCE

A. The Federal Circuit's Rigid Rule Will Force Courts to Issue Grossly Inequitable Injunctions, Especially in Connection with Complex Goods and Services

In the decision below, the Federal Circuit reversed the trial court's denial of an injunction, which the trial court had based on weighing the equities of the case. The Federal Circuit held that the plaintiff was "entitled," and had a "right," to injunctive relief. App. 27a. This rule requiring injunctive relief whenever a patent has been infringed conflicts with the Patent Act, which expressly instructs courts to grant injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283.

Patent injunctions are potent remedies. They can force a defendant to shut down a production line or withdraw a product from the market altogether, with potentially calamitous results. *See, e.g.*, Adam B. Jaffe & Josh Lerner, INNOVATION AND ITS DISCONTENTS 113-14 (2004) (noting that, due to the injunction in the Kodak instant camera case, 4,500 employees lost their jobs and $200 million of plant, property, and equipment were rendered obsolete). When infringement is found, this harsh medicine is often warranted. But there are many instances when it is not. Of primary concern to *amici* are potential injunctions that would prevent the use of a product or service when the patent in question covers only a minor element of the product or service. The Federal Circuit's rigid rule provides no exception for such cases. In such cases, the decision below compels courts to issue grossly inequitable injunctions.

The direct benefits to the patent holder of an injunction against the use of a minor element of a product will often be quite small. Complex goods and services contain numerous components. Although some of these components are central to those products and quite valuable, others serve only a minor function and could be replaced by other products or processes. Patents covering such minor elements are unlikely to be particularly valuable because of the availability of non-infringing alternatives. Indeed, precisely for this reason, the vast majority of patents have little or no value. *See, e.g.*, William Landes & Richard Posner, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 320 (2003) (noting that over 95% of patents are unlicensed and 97% generate no royalties).

Nevertheless, the burden imposed by an injunction against the use of such minor patents might be enormous. Even where it is relatively easy to design a new replacement element, the cost of incorporating that new element into the larger manufacturing process may be huge. For example, a facility for producing computer chips can cost more than $1 billion to build and equip. *See* Rosemarie Ziedonis, *Patent Litigation in the U.S. Semiconductor Industry* in PATENTS IN THE KNOWLEDGE-BASED ECONOMY 191 (Wesley M. Cohen & Stephen A. Merrill, eds., 2004). To prevent dust and other microscopic impurities from contaminating them, computer chips must be produced in "clean" rooms with entirely self-contained environments. In addition, because toxic chemicals are used in etching the chips, their production facilities must have sophisticated ventilation systems and other safety devices integrated into them. As a consequence, even if it is easy to design a replacement for a component of the product or a process used in those facilities, the cost of "retooling" and inserting the new component can be tremendously expensive.

Similarly, many manufacturing processes now use process-control systems based on information technology. These systems contain small controllers and other components that are manufactured for incorporation into larger process-control systems. These components have relatively little market value. The systems into which they are integrated are, however, so intertwined with manufacturing processes that their removal because of a patent injunction can shut down the entire manufacturing process. Moreover, because these controllers are themselves complex products, they might have multiple components and processes potentially subject to infringement claims.

Even if a new minor component can be integrated into a complex product or service in response to a patent injunction, launching and testing it can be quite expensive. For example, a change in semiconductor manufacturing equipment, even if small, might require re-qualification of the equipment by most or all of the customers using that equipment, which can take months of work by each customer to make sure the change does not affect the quality of the customer's final product. The manufacturer also must make sure that the newly revised product is safe and that it remains compatible with the rest of a manufacturer's products and industry standards. For example, with software, a new subroutine cannot simply be substituted for an older infringing one. The different subroutines in large software programs frequently have unexpected interactions with each other, and it is therefore necessary to spend considerable time "debugging" software programs before releasing them to the public. *See, e.g.*, James Bessen, *Open Source Software: Free Provision of Complex Public Goods* at 5 (2004) (noting that most of the cost of software "arises from testing, debugging, and consumer maintenance (that is, fixing bugs or providing work-arounds after product release)"), http://www.researchoninnovation.org/opensrc.pdf (last visited Sept. 22, 2005).

The delay associated with incorporating a new element into an existing product to respond to a patent injunction can also can be overwhelmingly expensive. During the time it takes to install new equipment on a production line or debug new software, a manufacturer might lose significant sales to its competitors. In addition, the manufacturer might be forced to recall and replace infringing products used by its consumers. Even worse, if customers blame the disruption on the manufacturer, the goodwill that the manufacturer has built up might be lost, thereby damaging not only sales of the enjoined good but also the company's overall reputation. *See* Samson Vermont, *The Economics of Patent Litigation*, in FROM IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY 350 (B. Berman ed., 2002). Indeed, the manufacturer might be subjected to class actions by consumers complaining that they were prevented from using the infringing goods. *See, e.g.*, *Instant Camera Settlement*, http://www.kodak.com/cluster/global/en/service/faqs/faq0098.shtml (last visited Sept. 8, 2005) (noting class action lawsuit brought in light of the injunction issued against the Kodak instant camera).

Those costs of compliance are not mitigated by the possibility of overturning the underlying judgment on appeal. Appeals in patent cases can take several years, and injunctions are not automatically stayed pending appeal. *See* Fed. R. Civ. P. 62(a). Even when an injunction is stayed, the possibility of injunctive relief might chill investment and innovation. Indeed, in many instances the costs of an injunction might prove too high for a company to pursue appellate review.

The burdens imposed by the patent injunctions made mandatory by the decision below thus can be grossly inequitable. Although the burdens of retooling a product might be justified when the infringed patent covers some innovation at the core of the product, the burden on the defendant will

vastly outweigh the plaintiff's interest when the injunction is based upon a minor element that adds only minor value to the product. This is especially true where, as in the underlying case, the plaintiff neither practices the patent itself nor attempts to persuade others to use it, and therefore has little equitable claim to an injunction in addition to the remedy of damages for any future infringing use. Indeed, issuing injunctions under such conditions will often give a patent holder a significant windfall, for a rational manufacturer will strongly consider settling to avoid or vacate an injunction and obtaining a license for a sum that is less than the cost imposed by the injunction but more than the fair value of the patent.

B. The Injunctions Mandated by the Decision Below Will Exacerbate the Growing Problem of Abusive Patent Litigation

By virtually guaranteeing an injunction in every case in which the plaintiff proves infringement, and thereby enabling plaintiffs to leverage patents of little value into lucrative settlements, the Federal Circuit's rigid rule exacerbates the already serious problem of abusive patent litigation.

Several aspects of patent litigation make it particularly conducive to frivolous or abusive litigation. *See, e.g.*, Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 512-20 (2003). In the first place, patent cases are difficult to assess and therefore uncertain. Due to the complexity of claim construction, the heavy reliance upon expert testimony, and the difficulty juries have assessing evidence of infringement, patent defendants can rarely be entirely sure of victory, irrespective of the strength of their defenses. *See id.* at 513-14. In addition, patent plaintiffs have an initial advantage in assessing the merits of their claims because, unlike their adversaries, they often know of prior art or other factors likely to preclude relief. *See id.* at 514-15. Finally, patent litigation is extremely expensive. The "industry rule of

thumb" is that "any patent infringement lawsuit will easily cost $1.5 million in legal fees alone to defend." Wendy H. Schacht & John R. Thomas, CONGRESSIONAL RESEARCH REPORT: PATENT REFORM: INNOVATION ISSUES 7 (2005) [hereinafter PATENT REFORM] (internal citations omitted).

Moreover, high stakes patent litigation is even more costly: for patent suits involving damage claims of more than $25 million, expenses can increase to $4 million per side. *See id.* at 7; *see also* Jaffe & Lerner, INNOVATION AND ITS DISCONTENTS at 14 (noting the indirect costs of patent litigation). As a result of these factors, many companies are wary of litigating patent cases and will readily settle such claims for anything less than the perceived cost of litigation, especially when their adversary is aggressive and well financed. *See id.*; Meurer, *supra*, 44 B.C. L. REV. at 516-17.

Well aware of these dynamics, a new class of professional patent litigants has appeared in recent years. *See* PATENT REFORM at 9 (recounting the rise of these non-practicing entities (NPEs) and explaining why they are also often called "patent trolls"). These litigants do not seek to develop new products based on their patents or enter into licenses with companies that want to develop the innovations covered by those patents. Instead, they seek out companies that have independently developed the same innovations and then either sue them or extort licenses out of them based upon the threat of suit.

For example, the late Jerome Lemelson, a prolific obtainer of patents and frequent plaintiff (but not connected with this action), asserted that one of his patents covered the bar codes widely used on commercial products. Rather than suing companies that market and manufacture bar-code readers, Lemelson sued companies that simply used these machines, typically settling for an amount just under the expected cost of litigation. *See* Nicholas Varchaver, *The Patent King*, FORTUNE, May 14, 2001, at 214-16. In this way, he earned

hundreds of millions of dollars in licensing fees. *See id.* Eventually, however, the bar-code reader manufacturers sued Lemelson, litigated the case through trial, and obtained a judgment that Lemelson's patents were unenforceable. *See Symbol Techs., Inc. v. Lemelson Med., Educ., & Research Found., Ltd., P'ship*, 301 F. Supp. 2d 1147 (D. Nev. 2004), *aff'd*, No. 04-1451, 2005 WL 2173572, at *1 (Fed. Cir. Sept. 9, 2005).

Other repeat patent litigants focus upon buying dormant, unexploited patents. *See* Stephen A. Merrill, *et al.* eds., A PATENT SYSTEM FOR THE 21ST CENTURY 31 (2004); James Bessen & Michael Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1 (2005). For example, the Acacia Technologies Group, which controls more than 120 patents, describes itself as a company that "develops, acquires, and licenses patented technologies." Acacia Technologies Group, "About Us," http://www.acaciaresearch.com/aboutus_main.htm (last visited Sept. 8, 2005). It employs more lawyers and accountants than engineers, and its engineers reportedly evaluate rather than develop technologies. *See* Steven M. Cheery, *Company Profile: The Patent Profiteers*, IEEE SPECTRUM, June 2004, at 38-41; *see also* Danny Fortson, *The Big Squeeze*, IP LAW & BUS., Nov. 2004, at 19 (discussing Intellectual Ventures); John Markoff, *Auction of Internet Commerce Patents Draws Concerns*, N.Y. TIMES, Nov. 16, 2004, at C4 (discussing JGR Acquisitions Inc.). Other frequent patent litigants are failed market participants who turn to litigation after unsuccessfully attempting to commercialize their patents. *See* Kirk L. Kroeker, *Forgent Sues 31 Companies for JPEG Royalties*, TECHNEWSWORLD, Apr. 23, 2004, http://www.technewsworld.com/story/33518.html last visited Sept. 9, 2005) (discussing Forgent Networks).

The Federal Circuit's automatic injunction rule will provide powerful encouragement for these professional patent

litigants. By essentially guaranteeing injunctive relief upon a finding of infringement, no matter how minor the patent, the rule adopted below gives them a weighty club with which to back up their shake-down threats, thus creating the prospect of even more lucrative settlements and rendering abusive claims even more attractive. *See, e.g.*, Jaffe & Lerner, *supra*, at 111; Ziedonis, *supra*, at 191.

In addition, the Federal Circuit's rule gives plaintiffs an incentive to bring claims based upon patents with little or no value. When a patent has little value, and its owner does not attempt to practice it or attempt to persuade others to practice it, the damages the patent holder may receive will normally be limited to the fair value of the royalties that would have been earned by a license negotiated prior to any infringement. *See Maxwell v. J. Baker, Inc.*, 86 F.3d 1098 (Fed. Cir. 1996); *see also Hebert v. Lisle Corp.*, 99 F.3d 1109, 1119 (Fed. Cir. 1996) ("When the patentee does not seek to make and sell the invention, lost profits are not an appropriate measure of damages."). For a low-value patent, these damages will be minimal and therefore not worth the cost of litigation. By essentially guaranteeing injunctive relief to successful patent plaintiffs, the Federal Circuit's automatic injunction rule changes the game. This is because the burden imposed by the injunctive relief that the rule requires creates a prospect of lucrative settlements that are wholly separate from the intrinsic value of the patent. In short, by creating an independent economic incentive to bring infringement claims based upon patents that are themselves of low value or that play only a minor role in complex products or services, the decision below encourages abusive litigation.

C. The Abusive Litigation Encouraged by the Decision Below Will Unnecessarily Burden Already Overstretched Courts and Undermine the Primary Goal of the Patent System

The abusive litigation encouraged by the Federal Circuit's automatic injunction rule burdens both the administration of justice and the operation of the patent system.

The automatic injunction rule burdens an already overstretched court system by making otherwise frivolous litigation economically attractive and escalating the potential recovery in other cases. Over the last decade, the number of patent suits has increased sharply. In 1994, approximately 1,600 patent suits were filed; ten years later filings exceeded 3,000 suits—an increase of nearly 90% percent, nearly six times the overall increase in civil cases. *See* Annual Reports of the Administrative Office of the U.S. Courts from 1997-2004, http://www.uscourts.gov/judbususc/judbus.html (last visited Sept. 8, 2005). Moreover, the burden of these patent cases is disproportionately greater than their numbers suggest. As the high cost of such suits indicates, *see supra* p. 11, patent litigation is especially contentious and rife with disputes and motion practice requiring court supervision and resolution. Patent infringement cases also have extensive and hotly contested claim-construction hearings, which have no parallel in other civil litigation. Due to the high stakes, when patent cases are litigated, they are more likely than other cases to go to trial. *See, e.g.*, Bessen & Meurer, *Lessons from Patent Policy for Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. at 2-3 (noting that patent cases go to trial at twice the overall rate for civil suits). Finally, patent trials tend to be lengthy: almost 10% of patent trials require 20 or more days of trial, compared to less than 1% of all civil cases, and it is not unusual for a patent trial to last for several months. *See, e.g.*, M. Patricia Thayer *et al.*, *Examining*

Reexamination: Not Yet An Antidote To Litigation, 5 SED. CON. J. 23, 26 (2004).

The Federal Circuit's rigid injunction rule will further exacerbate the already serious burden that patent litigation imposes on judicial resources. Although no separate figures detail what portion of the huge increase in patent suits over the last decade is due to professional patent litigants, their simultaneous rise is not mere coincidence. By providing additional incentives to sue, and by making abusive litigation based upon low-value patents economically viable, the rule deepens this already serious challenge to the administration of justice.

By encouraging abusive litigation, the automatic injunction rule also adversely affects the patent system and business operations. First, the litigation encouraged by the rule diverts resources that might be more productively used to develop and improve products. Every dollar spent defending against patent suits, especially abusive ones based upon dubious claims and patents of little value, is a dollar that could be spent more productively on research and development. Moreover, the money spent actually litigating patent cases represents only the tip of the iceberg. Professional patent plaintiffs make most of their money by simply threatening to bring litigation and thereby coercing licensing fees. *See supra* p. 10-13. Thus, by encouraging abusive litigation, the automatic injunction rule saps resources that would otherwise be available for research and innovation.

Second, the risk of litigation colors and distorts business operations. For smaller firms, the risk of litigation is a major consideration in deciding whether to engage in research and development. Aware that they cannot afford the time and expense of patent litigation, many smaller companies reduce or alter their research and development efforts. *See* Jaffe & Lerner, *supra* at 15; Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C.

L. REV. at 518. The research and development decisions of larger companies are affected as well. To avoid patent litigation, these companies often seek patents that they would not otherwise prosecute, thereby reducing the funds available for additional research and development. *See* Jaffe & Lerner, *supra* at 58; Ziedonis, *supra* at 181-83. In addition, such companies are also deterred from pursuing smaller innovations, though they may be promising or efficient, because it is safer to use old components and processes that are clearly in the public domain or for which they already own the patents. Thus, the threat of abusive litigation chills innovation.

These consequences effectively turn the patent system on its head. The Constitution authorizes Congress to enact patent laws to "promote the Progress of Science." U.S. Const. art. I, § 8, cl. 8. As this Court has repeatedly recognized, the goal of patent law is to encourage innovation and bring new designs and technologies into public use. *See, e.g., Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (noting that patent law "seeks to foster and reward invention to stimulate further innovation"); *see also Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 401 (1911) ("The purpose of the patent law is to stimulate invention."). The automatic injunction rule does not encourage patent holders to exploit their inventions or encourage others to do so to the benefit of the public. Quite the contrary, it allows patent holders to lie low while others invest time and money in independently discovering their invention, developing it, and incorporating it into a successful product. Then, the patent holder can spring into action to extract a license fee commensurate with the time and money the manufacturer has invested. Far from encouraging innovation, this threat leads companies to divert funds that might otherwise be used for research and development into defensive patents and litigation or settlement costs and thereby "disrupts the ongoing process of innovation." Jaffe & Lerner, *supra*, at 58. Thus,

the Federal Circuit's automatic injunction rule undermines the patent system's core goal of promoting innovation.

There is no need to interpret the Patent Act in such a counterproductive fashion. The incentive for abusive litigation created by the automatic injunction rule could be dramatically reduced by restoring a more flexible test for patent injunctions that would be in keeping with the plain language of the Patent Act and traditional equitable practice. Courts could prevent the unfair windfalls created by the automatic injunction rule if they were permitted to consider equitable factors such as the burden an injunction imposes upon a defendant, the relative value of the patented product or process, whether the plaintiff has sought to practice the patent in issue, and whether the plaintiff has sought to license the patent widely, selectively, or not at all. Likewise, removing the guaranteed promise of an injunction would reduce the leverage of pre-litigation threats and thus the incentive for abusive litigation.

Moreover, the heavy burdens imposed by the Federal Circuit's rule are not necessary to ensure that adequate injunctive relief against patent infringement is available. Courts have long been tasked with weighing the equities where injunctive relief has been requested, and there is no reason to believe that they cannot do so in patent cases. Certainly the Patent Act does not suggest so. Quite the contrary, the Act specifically recognizes that patent injunctions should only be issued "in accordance with the principles of equity." 35 U.S.C. § 283. Thus, the burdens imposed by the Federal Circuit's automatic injunction rule upon both the courts and the economy can be alleviated by simply following the plain language of the Patent Act and adopting the traditional flexible approach towards injunctive relief. Such an approach would continue to provide effective remedies for patent infringement, including injunctive relief, while also providing a needed safety valve when the equities warrant.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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EBAY, INC., *et al.*,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

AMICUS CURIAE BRIEF OF THE BUSINESS SOFTWARE ALLIANCE, SOFTWARE & INFORMATION INDUSTRY ASSOCIATION, INFORMATION TECHNOLOGY INDUSTRY COUNCIL, AND INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA IN SUPPORT OF PETITIONER

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INTEREST OF AMICI CURIAE[1]

The Business Software Alliance ("BSA") is an association of the world's leading software and hardware technology companies. The BSA member companies create and supply much of the software and hardware infrastructure for personal computers and the Internet and are responsible for the majority of the world's office productivity software. BSA members include Adobe Systems, Inc., Apple Computer, Inc., Autodesk, Inc., Avid Technology, Inc., Bentley Systems, Inc., Borland Software Corporation, Cadence Design Systems, Inc., Cisco Systems, Inc. CNC Software/Mastercam, Inc., Dell, Inc., Entrust, Inc., Hewlett Packard Development Company, L.P., IBM Corporation, Intel Corporation, Internet Security Systems, Inc., Macromedia, Inc., McAfee, Inc., Microsoft Corporation, Parametric Technology Corporation, RSA Security, Inc., SAP AG, SolidWorks Corporation, Sybase, Inc., Symantec Corporation, UGS Corp., and VERITAS Software Corporation.

The Software & Information Industry Association ("SIIA") is the leading and largest U.S. trade association committed to promoting and protecting the interests of the software and digital content industries. SIIA represents over 700 member companies that develop and market software and electronic content for business, education, consumers and the Internet. SIIA's members are software companies, e-businesses, and information service companies, as well as many electronic commerce companies. Our membership

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[1] Counsel of record for all parties has consented to the filing of this brief. Their letters of consent have been filed with the Clerk. No party or counsel to a party has authored this brief in whole or in part, and no person or entity other than those submitting this brief has made any financial contribution to its preparation or submission.

consists of some of the largest and oldest technology enterprises in the world, as well as many smaller and newer companies.

The Information Technology Industry Council ("ITI") represents the leading U.S. providers of information technology (IT) products and services. ITI is the voice of the high tech community, advocating policies that foster U.S. economic growth and job creation by advancing U.S. leadership in technology and innovation; expanding market access for IT products; protecting consumer privacy and choice; promoting e-commerce; and enhancing the global competitiveness of its member companies. ITI member companies include Accenture, Agilent Technologies, AMD, Apple, Applied Materials, Canon U.S.A., Cisco, Corning, Dell, Eastman Kodak, eBay, EMC, Hewlett-Packard, Honeywell, IBM, Intel, Lexmark, Micron, Microsoft, National Semiconductor, NCR, Oracle, Panasonic, QUALCOMM, Inc, SAP, Sony Electronics, Sun Microsystems, Symbol Technologies, Tektronix, Time Warner, Unisys and VerSign.

The Information Technology Association of America ("ITAA") provides 380 corporate members with global public policy, business networking, and national leadership that promote the continued rapid growth of the IT industry. ITAA members range from the smallest IT start-ups to industry leaders in the Internet, software, IT services, digital content, systems integration, telecommunications, and enterprise solution fields.

BSA, SIIA, ITI and ITAA members are involved in an industry that relies greatly on research and development of patented products. In turn, their members may be significantly affected by decisions changing patent law and are thus concerned with the Federal Circuit's *per se* rule

mandating the issuance of an injunction following a finding of infringement unless "exceptional circumstances" exist. Accordingly, BSA, SIIA, ITI and ITAA respectfully believe that this brief will aid the Court in understanding the improper nature of the Federal Circuit's *per se* rule and its undermining effect on patent policy particularly with respect to the technology field of their members.

SUMMARY OF ARGUMENT

Amici Curiae the Business Software Alliance ("BSA"), the Software & Information Industry Association ("SIIA"), the Information Technology Industry Council ("ITI"), and the Information Technology Association of America ("ITAA") respectfully submit that review should be granted of the Federal Circuit's decision in *MercExchange, L.L.C. v. eBay, Inc, 401 F.3d 1323 (Fed. Cir. 2005)* that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *Id.* at 1339. This "exceptional circumstances" standard, however, effectively strips trial courts of the discretion to enter or withhold permanent injunctions, which discretion is explicitly granted to the courts by the patent statute. *See* 35 U.S.C. § 283 (stating that district courts "may grant injunctions in accordance with the principles of equity").

In creating this *per se* rule, the Federal Circuit ignored the plain language of section 283, this Court's instructions on the applicable "principles of equity," and indeed, even the Federal Circuit's own statements that the district court is in the best position to decide the form of remedy for patent infringement. Instead, the Federal Circuit implemented a *per se* rule that instructs district courts to issue permanent injunctions absent "exceptional circumstances." In doing so, the Federal Circuit exceeded its authority and rewrote section 283 to remove the district

courts' discretion to enter permanent injunctions, a power reserved only to Congress.

The Federal Circuit's facile blanket rule that all patentees have the "right" to an injunction, without consideration of all the equitable factors that might counsel against it, will have a serious negative impact on the technology and software industries. With a "right" to an injunction, patent holding companies may have a decided advantage in bargaining power over the target technology companies providing goods and services to the public – a condition with significant negative implications.

Facing mandatory injunctions, innovating technology and software companies are frequently forced into unfair license agreements because design changes are impractical. Products and services provided by the technology and software industries can often contain hundreds, if not thousands, of integrated parts or processes. These parts and processes, in turn, are typically designed to conform to uniform standards enabling universal application by consumers or are designed for forward and backward compatibility ensuring that products currently in use can continue to be used with evolving technology. This complex interrelationship between elements, however, makes it impractical for industries to simply stop using certain parts or processes without engaging in expensive re-design of entire systems. Consumers will either bear the cost of extensive redesign or will lose uniformity and compatibility in important technology.

In addition, if patent holders do not participate in the marketplace, they are immune to counterclaims for patent infringement by the target companies – a factor that usually brings balance to the negotiations between competitors in the marketplace. On the other hand, the target companies are

often at risk that an injunction could shut operations down or drastically impact customer operations. Under these scenarios, defective, narrow or invalid patents are not winnowed, but to the contrary grow stronger with each license.

The policy of the patent statutes will be restored by adhering to the plain language of Section 283 and rejecting the Federal Circuit's *per se* rule. With the restoration of the district court's discretionary equitable powers, technology and software industries, so vital and important to American trade and commerce, will not suffer the debilitating effects of the Federal Circuit's rigid rule. Without review by this Court, however, the *per se* rule will go unchallenged or examined by contrary views, protected by the Federal Circuit's exclusive jurisdiction. The serious nature of these issues requires the grant of the petition for certiorari. For these and the reasons set forth below, BSA, SIIA, ITI and ITAA respectfully submit that the petition for a writ of certiorari should be granted.

ARGUMENT

I. The Federal Circuit Impermissibly Exceeded Its Authority By Rewriting 35 U.S.C. § 283 And Thereby Removing The Discretion Of The District Court To Enter Permanent Injunctions.

In *MercExchange*, the Federal Circuit disregarded the plain language of 35 U.S.C. § 283 that unambiguously states that district courts "may grant injunctions in accordance with the principles of equity." Instead, the Federal Circuit implemented a *per se* rule that mandates the issuance of an injunction unless "exceptional circumstances" exist. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d at 1338-39. In doing so, the Federal Circuit exceeded its authority by

rewriting the statute in a manner that contradicts the plain language of the statute.

Congress left no doubt as to its intention in enacting section 283 when it used the permissive qualifier "may." *See Farmers' & Merchs.' Bank of Monroe, N.C. v. Federal Reserve Bank of Richmond, Va.*, 262 U.S. 649, 662-63 (1923) (noting that while "may" is sometimes construed as "shall," such construction only occurs when the context or subject matter compels it); *United States v. Cook*, 432 F.2d 1093, 1098 (7th Cir. 1970) (stating that the word "may" as opposed to "shall" is indicative of discretion). Indeed, as this Court explained:

> [R]eading 'may' as either conferring or confirming a degree of equitable discretion conforms to the even more important principle of statutory construction that Congress should not lightly be assumed to have enacted a statutory scheme foreclosing a court of equity from the exercise of its traditional discretion.

United States v. Rodgers, 461 U.S. 677, 708 (1983).

Critically, nothing in the patent statute, or for that matter in the history of patent jurisprudence before the creation of the Federal Circuit, compels a different construction. *See Weinberger v. Romero-Barcelo*, 456 U.S. 305, 313 (1982) (noting that Congress is "assuredly well aware" of the considerations applicable in cases where injunctions are sought); *see, e.g., Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) ("An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. It is not intended as a club to be wielded

by a patentee to enhance his negotiating stance."). The only expressed limitation in the patent statute on that discretion is that injunctions be entered "in accordance with the principles of equity."

Undeniably evident from the plain language of the statute, therefore, Congress intended that the district courts use their discretion when deciding whether to issue injunctions and to be guided by the principles of equity when making that decision. *See Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992) ("We have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there.").

Faced with such unambiguous language, the Federal Circuit must uphold those terms. *See Dodd v. United States*, 125 S. Ct. 2478, 2483 (2005) ("'[W]hen the statute's language is plain, the sole function of the courts -- at least where the disposition required by the text is not absurd -- is to enforce it according to its terms.'") (quoting *Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A.*, 530 U.S. 1, 6 (2000)). Equally important, the Federal Circuit cannot rewrite the statute or ignore its plain language. *Dodd v. United States*, 125 S. Ct. 2478, 2483 (2005) (stating that courts are "not free to rewrite the statute that Congress has enacted.").

Even the Federal Circuit in its earliest opinions after its creation recognized the specific mandate from Congress that allowed district courts to exercise their discretion when fashioning injunctive relief. The Federal Circuit acknowledged that the determination to apply injunctive relief is not an exact science but depends on the circumstances of each case. *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983) ("Injunctions and damages

must be tailored to the circumstances and be correlatively determined."). Likewise, the Federal Circuit recognized the discretionary nature mandated by section 283 stating that:

> Section 283, by its terms, clearly makes the issuance of an injunction discretionary: the court '*may grant*' relief '*in accordance with the principles of equity.*' The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction. The scope of relief, therefore, is not for us to decide at the first instance, nor is this the time or place for a discourse on the 'principles of equity.' Whether an injunction should issue in *this* case, and of what form it should take, certainly depends on the equities of the case.

Roche Prod., Inc. v. Bolar Pharm. Co., 733 F.2d 858, 865 (Fed. Cir. 1984) (emphasis in original) ("Since we hold that there is infringement, Roche is entitled to a remedy. We are not in a position, however, to decide the form of that remedy.").

In subsequent decisions, however, the Federal Circuit quickly narrowed its construction of section 283 and eroded the district court's discretion. After *Roche*, the Federal Circuit noted, "injunctive relief against an infringer is the norm." *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985). The Federal Circuit also indicated "an injunction should issue once infringement has been established unless there is a sufficient reason for denying it." *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988). The Federal Circuit later elevated its standard for permanent injunctions to a "general rule" that injunctions should issue when infringement is

found. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) ("It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.").[2]

With its decision in *MercExchange*, the Federal Circuit has now elevated its general rule to essentially a *per se* rule that instructs the district court to enter injunctions unless "exceptional circumstances" justify its denial. In doing so, the Federal Circuit impermissibly acted as a legislative body and determined prospectively the circumstances under which permanent injunctions will issue. *See United States v. Rutherford*, 442 U.S. 544, 555 (1979) ("Under our constitutional framework, federal courts do not sit as councils of revision, empowered to rewrite legislation in accord with their own conceptions of prudent public policy.")

II. The Federal Circuit Departed from the Fundamental Principles of Equity as Explained by This Court.

By rewriting section 283, the Federal Circuit has ignored the fundamental principles of equity – principles that find their roots in fairness, rather than strict rules of law. *Freeman v. Pitts*, 503 U.S. 467, 487 (1992) ("The essence of a court's equity power lies in its inherent capacity to adjust remedies in a feasible and practical way to eliminate the conditions or redress the injuries caused by unlawful action.

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[2] As discussed further below, the Federal Circuit unjustifiably based its general rule on the property characteristics of a patent stating that "[i]nfringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. 35 U.S.C. § 261. '[T]he right to exclude recognized in a patent is but the essence of the concept of property.'" *Richardson* at 1246-47.

Equitable remedies must be flexible if these underlying principles are to be enforced with fairness and precision.") Indeed, it turns the concept of equity on its head to prospectively mandate equitable relief and thereby change a remedy that is supposed to be fashioned from a balance of competing interests in a particular case into a *per se* rule of law that injunctions will issue as a matter of course for all cases absent exceptional circumstances. This Court, however, has rejected such a strict approach to injunctions. *See Weinberger v. Romero-Barcelo*, 456 U.S. 305, 313 (1982) ("[A] federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law."); *Harrisonville v. W.S. Dickey Clay Mfg.*, 289 U.S. 334, 337-38 (1933) ("For an injunction is not a remedy which issues as of course.").

Because of the extraordinary nature of the relief, "courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction." *Weinberger*, 456 U.S. at 312. "In each case, a court must [also] balance the competing claims of injury and must consider the effect on each party of the granting or withholding of the requested relief." *Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531, 542 (1987).

In following that guidance, the *MercExchange* court found that the patentee did not engage in commercial activity of its own, but instead existed merely to license others, *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003), found that the patentee had an adequate remedy at law because of its expressed willingness to license, *id.* at 713, and recognized a public policy concern over business-method patents as evidenced by actions taken within the Patent Office and Congress. *Id.* at 713-14. On balance, the district court concluded that a permanent injunction should not issue.

The Federal Circuit, however, ignored the balance struck by the district court and instead found a "right" in the patentee to an injunction. *See MercExchange*, 401 F.3d at 1339 ("The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the *right to an injunction* to which it would otherwise be *entitled*.") (emphasis added). Besides elevating an equitable *remedy* to a right, the Federal Circuit's refusal to look at the commercial activity of the patentee contradicts the Supreme Court's suggestion in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-30 (1908) that a patentee's nonuse of his invention may indeed counsel against an injunction if the failure to use the invention adversely affects the public welfare.

In *Continental Paper Bag*, the petitioner contended that a court of equity could not enjoin patent infringement where the patentee had unreasonably withheld use of his invention. The patentee, on the other hand, argued that its failure to use the invention was not unreasonable because the cost of implementing the invention in its paper bag manufacturing facility would have been too expensive. *Id.* at 429. The Court rejected the contention that the non-use was unreasonable and sustained the injunction. *Id.* As to the public interest, however, this Court found "it is certainly disputable . . . that the rights of the public were involved. There was no question of a diminished supply or of increase of prices." *Id.* Indeed, the Court expressly stated that it did not decide the question of whether a court of equity might be justified in withholding relief by injunction where the public welfare is implicated. *Id.* at 430.

Though *Continental Paper Bag* has been subsequently cited for the broad proposition that there is no requirement that a patentee use his invention, *see, e.g., Rite-*

Hite Corp. v. Kelley Co., 56 F.3d 1538, 1547 (Fed. Cir. 1995), nothing in the *Continental Paper Bag* decision removes injunctions in patent cases from their equitable underpinnings. Indeed, rather than a rule of equity, this Court has described the holding of *Continental Paper Bag* as the "failure of the patentee to make use of a patented invention does not affect the *validity* of the patent." *See Special Equip. Co. v. Coe*, 324 U.S. 370, 378-79 (1945) (emphasis added); *see also id.* at 381 *(Harlan, J., dissenting)* (noting that the *Continental Paper Bag* case held that suppression of the patent was no defense to infringement).

In sum, equitable remedies must be flexible if fairness to the litigants and public is to be achieved and this Court's equity principles are to be followed. *See Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944) (stating that "flexibility rather than rigidity has distinguished" relief based on equity jurisdiction). Even outside the context of injunctions, this Court has always taken a flexible approach to the construction and application of the patent laws, recognizing that the patent laws promote the broad objective of progressing science and technology. *See e.g., Diamond v. Chakrabarty*, 447 U.S. 303, 315-16 (1980) (noting that Congress employed broad language in the subject-matter provisions of the patent laws to support the broad objective of the progress of science and the useful arts.) The Federal Circuit ought not abandon this approach to the patent laws as applied to injunctions.

III. A Patentee's Property Rights Do Not Justify the Emasculation of the District Court's Injunction Discretion by the Federal Circuit.

The Federal Circuit misplaces its justification for its *per se* rule on the right of the patentee as a property owner. It concluded the "right to exclude recognized in a patent is

but the essence of the concept of property." *MercExchange*, 401 F.3d at 1338 (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). Whether the issuance of a patent grants a property right or not,[3] the existence of such a property right does not justify the Federal Circuit's *per se* rule regarding the *remedy* for infringement of that right. Courts have long applied the principles of equity in property cases and have exercised their discretion when determining whether an injunction should issue to protect property rights. *See Harrisonville v. W.S. Dickey Clay Mfg.*, 289 U.S. 334, 338 (1933) ("Where substantial redress can be afforded by the payment of money and issuance of an injunction would subject the defendant to grossly disproportionate hardship, equitable relief may be denied although the nuisance is indisputable. This is true even if the conflict is between interests which are primarily private."); *see also Hunter v. Carroll*, 15 A. 17, 18 (N.H. 1888) (holding that an injunction will not issue when the hardships were greatly disproportionate to the defendant even when defendant indisputably encroached upon plaintiff's land); *Mobley v. Saponi Corp.*, 212 S.E.2d 287 (Va. 1975) (denying an injunction because hardship to the defendant and public was disproportionate to the plaintiff's injury).

Indeed, the protection of property does not mandate that injunctive relief will issue when that property is infringed. The ability of real property owners to enjoin trespass, for example, is not unfettered, but is moderated by equitable considerations. *See, e.g., Hirshfield v. Schwartz*, 91 Cal. App. 4th 749, 758-59 (Cal. Ct. App. 2001):

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[3] Some commentators have urged that patents are best viewed as government subsidies rather than a property right. *See, e.g.*, Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 Tex. L. Rev. 1031, 1032 (2005).

> California courts have long applied the relative hardship doctrine in determining whether to grant an injunction to enjoin a trespass by encroachment on another's land. Under this doctrine, once the court determines that a trespass has occurred, the court conducts an equitable balancing to determine whether to grant an injunction prohibiting the trespass, or whether to award damages instead.

See also LeFurgy v. Long Cove Club Owners Assoc., 443 S.E.2d 577, 578 (S.C. Ct. App. 1994):

> In a case where an injunction is sought to abate an alleged private nuisance, the court must deal with the conflicting interests of the landowners by balancing the benefits of an injunction to the plaintiff against the inconvenience and damage to the defendant, and grant or deny an injunction as seem most consistent with justice and equity under the circumstances of the case.

In the context of other areas of intellectual property, injunctions do not necessarily follow from judgments of infringement. *See United States Jaycees v. Cedar Rapids Jaycees*, 794 F.2d 379, 382 (8th Cir. 1986) (upholding the denial of injunctive relief under the Lanham Act and noting that courts must apply the principles of equity even when trademark infringement is clear and deliberate); *American Metro. Enter. of New York, Inc. v. Warner Bros. Records, Inc.*, 389 F.2d 903, 905 (2d Cir. 1968) ("The Copyright Act expressly preserves the traditional doctrines of equity when one seeks equitable remedies in a copyright action.").

Contrary to the Federal Circuit's suggestion that an injunction, absent exceptional circumstances, is the only manner of vindicating a patent property right, the patent statute recognizes only compensatory damages as the sole mandatory manner of relief to be given to a patentee. While section 283 *permits* an injunction to protect a patentee's property rights, 35 U.S.C. § 284 states that "the court *shall* award the claimant damages adequate to compensate for the infringement, but in no event less that a reasonable royalty for the use made of the invention by the infringer." Congress struck a balance with the remedies available for patent infringement, making a reasonable royalty, not an injunction, the minimum, adequate relief for patent infringement. The Federal Circuit cannot recast that balance. *See United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 497 (2001) ("Courts of equity cannot, in their discretion, reject the balance that Congress has struck in a statute.").

IV. A *Per Se* Rule Mandating Patent Injunctions Is Contrary To The Policies Underlying The Patent Laws.

The United States Constitution authorizes the granting of patent rights "to promote the Progress of Science and the useful Arts." U.S. Const. art. I, § 8, cl. 8. The purpose of this clause is ultimately to benefit the public. *See Kendall v. Winsor*, 62 U.S. 322, 327-28 ("It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly."). It is thus contrary to the purpose of the patent statute to disregard factors that would hinder

the policy of promoting the useful arts or to neglect the public impact when granting injunctive relief.

The Federal Circuit's *per se* rule that all patentees have the "right" to an injunction, however, will have a serious negative impact on the industries that are at the forefront of promoting the useful arts.

By way of background, products and services provided by the technology and software industries can often contain hundreds, if not thousands, of integrated parts or processes, each of which may be covered by patents. These parts and processes, in turn, are often designed to conform to uniform and publicly promulgated standards enabling universal application by consumers and to provide interoperability between products, or are designed for forward and backward compatibility ensuring that products currently in use can continue to be used with evolving technology. This complex interrelationship between elements, however, makes it impractical for these industries to simply stop using certain parts or processes without engaging in expensive re-design and extended re-testing of entire systems.

By way of example, the now ubiquitous wireless networks found in both the home and office are designed in accordance with various standards. *See e.g.*, Introduction to IEEE 802.11 http://www.intelligraphics.com/articles/80211_article.html describing the IEEE Standard 802.11-1997 Information Technology – Telecommunications and Information Exchange Between Systems-Local and Metropolitan Area Networks-Specific Requirements-Part 11: Wireless LAN Medium Access Control (MAC and Physical

Layer (PHY) Specifications. These wireless networks, however, have been the subject at least four patent lawsuits.[4]

For these and other similarly situated defendants, compliance with industry standards may make designing around patents impossible. This problem is particularly acute where the patent infringement accusation does not arise until after the standard has been promulgated and adopted by an industry. With the ability to re-file patent applications after a standard has become public, patent holders can draft patents to target the standard complying products and processes. *See* 35 U.S.C. § 132 (allowing for continued reexamination of patent applications); s*ee also* 37 C.F.R. § 1.114 (2005).

Against this backdrop, patent holding companies endowed by the Federal Circuit with a "right" to an injunction may have a decided advantage in bargaining power over the target technology companies providing goods and services to the public – a condition with significant negative implications. Indeed, this enhanced bargaining power is not going unnoticed by the patent holding companies. Already, hundreds of millions of dollars are being invested in patent acquisition and litigation. *See e.g.* Tomas Kellner, *Perot Backs $200 Million Bet on Patents*, Aug. 9, 2005, http://www.forbes.com/2005/08/09/perot-patents-fund-cz_tk_0809patents.html.

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[4] *See e.g.*, *Intersil to Fight 802.11b Patent Suit*, Mar. 16, 2001, http://www.wi-fiplanet.com/news/article.php/789751; *Symbol Technologies Wins Patent Infringement Litigation Against Proxim, Inc.*, Sept. 15, 2003, http://www.symbol.com/news/pressreleases/misc_symbol_proxim.html; Ben Charny, *Agere files patent suit over Wi-Fi*, Oct. 18, 2002, http://news.zdnet.com/2100-1009_22-962662.html; Eric Griffith, *Wayport in Patent Suit*, Sept. 24, 2004, http://www.wi-fiplanet.com/news/article.php/3412841

Facing mandatory injunctions, innovating technology and software companies are frequently forced into unfair license agreements because, as discussed above, design changes are impractical and the costs of litigation are prohibitive. *See* Wendy H. Schacht and John R. Thomas, Congressional Research Service, *Patent Reform: Innovation Issues*, July 15, 2005; *see* Joseph Rosenbloom, *Unsettled*, 3 IP Law & Business 28 (Sept. 2005) (detailing Research in Motion, Ltd.'s settlement of a patent infringement case for $450 million for fear of injunctive relief against them). Ultimately, consumers will either bear the cost of extensive redesign or will lose uniformity and compatibility in important technology. They may also be forced to make potentially disruptive changes to their own products and processes. These impacts must be taken into account by the trial court when determining the appropriateness of an injunction.

As well, when patent holders do not participate in the marketplace, they are immune to counterclaims for patent infringement by the target companies – a factor that usually brings balance to the negotiations between competitors in the marketplace. *See Patent Reform: Innovation Issues at 9-10.* On the other hand, the target companies are subject to harassment, facing the threat of injunction to stop production of a manufacturer or sales of a supplier of goods. *Id.* Even if the risk of an infringement judgment is low, innovator companies are unwilling to litigate because the threat of injunction puts their businesses on the line. Even worse for the public at large, under this scenario, defective, narrow or invalid patents are not winnowed, but to the contrary grow stronger with each license. *In re Rouffet*, 149 F.3d 1350, 1355 (Fed. Cir. 1998) (noting that a secondary consideration supporting nonobviousness and validity of a patent is licenses taken by members of the industry for the patent); *see also* Michael Warnecke, *Questionable Patents Hurt*

Innovation, Reforms Needed, FTC Chairman Remarks, Patent, Trademark & Copyright Law Daily, Nov. 3, 2003; *IPO Survey Shows Corporate Dissatisfaction with Quality of Patents Issued by PTO*, Patent, Trademark & Copyright Law Daily, Sept. 15, 2005.

The effects of the Federal Circuit's *per se* rule is likely not limited to just the innovators and providers of technology, but will extend downstream to the millions of businesses and consumers that rely on the technology as well. As software and technology increasingly support services over networks and the Internet, the Federal Circuit's inflexible *per se* rule of injunctions will also disrupt the expectations of all downstream users – a decidedly inequitable result that will not be considered under the current approach. This downstream ripple effect is inconsistent with the Constitutional mandate to promote the useful arts.

CONCLUSION

If the courts of equity are to administer fairness, indeed if the policies of the patent laws to promote innovation are going to be upheld, then the district courts must have discretion in fashioning remedies for patent infringement on a case by case basis. That is not to say, of course, that injunctions should not be entered or that the Federal Circuit should not review a district court's refusal to enter an injunction. Rather, the Federal Circuit should not command a *per se* rule when separate evaluation of each case is so important.

Accordingly, for the reasons set forth above, *Amici Curiae* the Business Software Alliance, the Software & Information Industry Association, the Information Technology Industry Council and the Information

Technology Association of America respectfully submit that review should be granted of the Federal Circuit's decision in *MercExchange, L.L.C. v. eBay, Inc.*

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In The
Supreme Court of the United States

EBAY INC. and HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE LLC,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF *AMICUS CURIAE* OF COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

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BRIEF *AMICUS CURIAE* OF COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

Computer & Communications Industry Association (CCIA) submits this brief as *amicus curiae* and respectfully requests that the Petition for a Writ of Certiorari be granted. Petitioners and Respondent have consented to the filing of this brief, and the letters of consent are being filed herewith.

INTEREST OF AMICUS

The Computer & Communications Industry Association is a non-profit trade association dedicated to open markets, open systems, and open networks. CCIA members participate in many sectors of the computer, information technology, and telecommunications industries and range in size from small entrepreneurial firms to the largest in the industry.[1] CCIA members use the patent system regularly, and depend upon it to fulfill its constitutional purpose of promoting innovation. CCIA is increasingly concerned that the patent system has expanded without adequate accountability and oversight.

CCIA supports the petition for certiorari. This brief addresses how the Federal Circuit's standard for injunctive relief reflects and reinforces other problematic Federal Circuit decisions.

[1] Counsel for a party did not author this brief in whole or in part. No person or entity other than CCIA, its members, or its counsel made a monetary contribution to the preparation or submission of this brief.

Neither CCIA nor its members have a direct financial interest in the outcome of this litigation. However, allowing the Federal Circuit's decision to stand would subject CCIA members to increased patent litigation, burden information technology and software, and undermine the legitimacy of the patent system as a whole.

SUMMARY OF ARGUMENT

The issue presented in this case is whether the standard for injunctive relief in patent cases as articulated in 35 U.S.C. § 283 is consistent with general principles of equity or there should be a *sui generis* standard of automatic injunctive relief as articulated below by the U.S. Court of Appeals for the Federal Circuit.

The Federal Circuit's standard of automatic injunctive relief is fundamentally hostile towards complex products, especially today's extremely complex, systems-based digital information technology. The value of a deeply embedded patented function or component may be miniscule in relation to the value of the finished product and the costs of bringing it to market. Under such conditions, the extraordinary leverage accorded by automatic injunctive relief enables the patentee to extract settlements that approach the costs of shutting down an entire product line, far in excess of what a reasonable royalty is likely to be.

The undue leverage afforded by automatic injunctive relief belongs to a larger set of interrelated problems that are having a profound, often negative effect on intellectual property practice in the information technology sector. These problems are manifestations of the Federal Circuit's doctrinal championing of patent rights without due consideration

for the economic characteristics of different innovation environments and the inevitable dangers that a rigid jurisprudence poses to large segments of the economy.

Following its unique bureaucratic imperative, the Federal Circuit has become, in the words of Judge Posner, "a booster of its specialty."[2] While championing the expansion in scope and scale of the patent system, the Federal Circuit has instituted a narrowed stewardship which, along with the institutional biases that result from a fee-funded U.S. Patent and Trademark Office (PTO), has resulted in a system that operates in a dangerously self-serving manner.

The Federal Circuit's expansionist jurisprudence has unbalanced and distorted the U.S. patent system, especially as it affects information technology, software, and business services. In effect, it has transformed patent law from a rigorous technical specialty into a general law of novelty that reaches into every sector and all aspects of human activity. The Federal Circuit has made patents easier to get, easier to assert, more potent, more versatile, and widely available. In addition, the PTO's own bureaucratic incentives have led it to grant patents in increasing number and, arguably, decreasing quality.

Together, these phenomena promote an inflationary spiral of patents in the information technology industry, fed by a perceived need and demand to assemble ever-larger patent portfolios. These effects produce anti-competitive

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[2] Declan McCullagh, *Left Gets Nod from Right on Copyright Law*, C|Net News, Nov. 20, 2002, *available at* http://news.com.com/2100-1023-966595.html.

behavior, foster more litigation, and undermine innovation.

It is against this backdrop of extraordinary growth and distortion that the Federal Circuit has endorsed a manifestly inappropriate standard for injunctive relief. Accordingly, review should be granted.

ARGUMENT

I. The Automatic Injunction Rule Exacerbates Existing Problems In The Patent System.

A recent study by the Federal Trade Commission (FTC) confirmed what many technologists have long believed: the U.S. patent system contains deep flaws that prevent it from efficiently performing its constitutional purpose of promoting the progress of science and the arts, particularly with respect to complex technologies. *See generally* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) (FTC Report). Some of the problems flow from structural biases at the Patent and Trademark Office. Others are rooted in a pattern of questionable Federal Circuit decisions that has made patents overly attractive – easy to get, easy to assert, potent, versatile, and available for all areas of activity – thereby increasing demand and putting pressure on a system that already resolves many questions in favor of patent applicants and holders. The automatic injunction rule fashioned by the Federal Circuit in the decision below significantly amplifies these other problems by placing a dangerously powerful weapon in the hands of a patentee who, but for the

Federal Circuit's and the PTO's expansive policies, might not hold the patent to begin with.

Through ritual invocation of the patent incentive while ignoring scholarly literature and empirical economic evidence, the Federal Circuit has proved not only a booster of patents but a guardian of a lawyer's patent system, narrowly focused on the individual case but blind to the effects of patents on particular fields and indifferent to aggregate economic impact. This unsupervised expansion has triggered a staggeringly expensive arms race. In sum, "we converted the weapon that a patent represents from something like a handgun or a pocket knife into a bazooka, and then started handing out the bazookas to pretty much anyone who asked [] for one, despite the legal tests of novelty and non-obviousness." Adam B. Jaffe & Josh Lerner, *Innovation and Its Discontents* 35 (2004).

A. The Federal Circuit Has Made Patents More Potent.

By requiring injunctive relief, the Federal Circuit has made patents extraordinarily potent. Under general principles of equity, injunctive relief may well make sense in many circumstances, particularly where there is a close correlation between patents and products. However, the Federal Circuit's automatic rule removes the opportunity to examine the full range of factors that courts of equity normally consider. It demands ignorance of the economic realities of the situation, while depriving defendants of their interests in equity and district courts of their equitable powers.

In information technology, an infringing function may represent only an infinitesimal fraction of the value of a marketed product or service that embodies a complex technology. In determining damages, a court can evaluate the importance of the infringing function relative to the product as a whole. However, if injunctions are automatic, a patent on a single function can suddenly freeze an entire product line. The loss of the product line may well be catastrophic for the manufacturer, who faces the burden of extracting infringing functionality once a product has been designed, tested, debugged, packaged, and put on the market. In this context, economies of scale and scope, which have brought the benefits of information technology to millions at low cost, become a vulnerability. A single obscurely embedded patent can hold hostage an enormous sunk investment in manufacturing, distribution, and marketing of a rich, expensive product. Under such circumstances, the mere threat of an injunction carries enormous weight, tilting the negotiating table against the manufacturer in proportion to its investment.

There is no practical reason to depart from traditional principles of equity to constrain judicial consideration of injunctive relief. The power and leverage to radically disrupt innovation and commerce in complex technologies is an unneeded add-on to the patent incentive. This form of extortionate leverage does not exist as a practical matter in discrete technologies, and judges should not be forced to require it in complex technologies.

Even if the patent system were perfect in all possible respects, the Federal Circuit failed to justify its deviation from normal principles of equity. But the patent system is far from perfect. Other problematic decisions by the Federal Circuit and the institutional biases of the PTO

multiply the damage caused by the lower court's automatic injunction rule.

B. The Federal Circuit Has Made Patents Easier To Get.

Prior to the Patent Act of 1952, the Supreme Court articulated a very high standard for patentability: an invention must evidence a "flash of creative genius" to merit a patent. *Cuno Eng'g Corp. v. Automatic Devices Corp.*, 314 U.S. 84, 91 (1941). Drafted by two patent attorneys assigned to serve as staffers, *see* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* in *Patent Procurement and Exploitation* 61, 68 (1963), the Act contained the present language on the "person having ordinary skill in the art" (PHOSITA) standard, which effectively buried the subjective determination within a superficially objective standard while putting the burden of showing obviousness on the examiner. *See* 35 U.S.C. § 103. Although the Act was presented on the floor of the Senate as a mere codification of existing law, Section 103(a) appeared to overrule the Court's standard. *Compare* Rich, *supra*, at 76 n.21 *with Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 15 (1966) ("Patentability shall not be negatived by the manner in which the invention was made") (quoting § 103(a)). The Court interpreted this new standard in its 1966 *Graham* trilogy. *See Graham*, *supra*; *Calmar, Inc. v. Cook Chemical Co.*, 383 U.S. 1 (1966); *United States v. Adams*, 383 U.S. 39 (1966).

The Federal Circuit has since further lowered the standard by holding that combinations of known art are not rendered obvious unless there exists a specifically

documented suggestion or motivation to combine them. *See Arkie Lures, Inc. v. Gene Larew Tackle, Inc.*, 119 F.3d 953, 957 (Fed. Cir. 1997); *In re Lee*, 277 F.3d 1338, 1345 (Fed. Cir. 2002) (rejecting "common knowledge and common sense" in favor of requiring documentation). While purporting to reduce subjectivity, the requirement of documentation effectively sidesteps the PHOSITA test and reduces nonobviousness into a mere elaboration of the novelty requirement. Combinations of known art are enormously important in information technology where new elements are rare and most innovation routinely combines known elements in new configurations and designs. Many Internet patents are in effect combinations of the Internet and known business practices. *See, e.g.*, U.S. Patent No. 5,794,207 (issued Aug. 11, 1998) (reverse auctions on the Internet). The FTC has recommended that this special permissive treatment of combinations be eliminated. *See* FTC Report, Exec. Summ. at 11-12 (Recommendation 3b).[3]

The Federal Circuit has also liberalized the standard for nonobviousness in the application of the secondary factors enumerated in *Graham*, 383 U.S. at 16. The FTC report recommends a reformulation of the commercial success factor to ensure that commercial success is attributable to the patent in question rather than other circumstances or product features. *See* FTC Report, Exec. Summ. at 11 (Recommendation 3b).

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[3] This issue is presented in the petition before the Court in *KSR International v. Teleflex, Inc.*, 04-1350.

C. The Federal Circuit Has Made Patents Easier To Assert.

In addition to making patents easier to get, the Federal Circuit has made patents easier to assert by cloaking them in an artificially enhanced presumption of validity, so that challengers must show by "clear and convincing" evidence that the patent should not have been granted. *Connell v. Sears Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983).

The strength of this presumption is not justified because of the ex parte nature of the examination, the limited time available to the examiner, and the fact that the burden is on the examiner to show that the applicant is not entitled to a patent. *See* FTC Report, Exec. Summ. at 8-10 (Recommendation 2) (proposing adoption of "preponderance of the evidence" standard); *id.*, ch. 5, at 26. The unjustified presumption compounds the problem of declining patent quality, as is evidenced most clearly in the information technology sector. *See* Stephen A. Merrill et al., National Research Council, *A Patent System for the 21st Century* 44-48 (2004). Thus, an artificially elevated presumption of validity provides patent holders undue leverage and gives speculators an incentive to acquire and assert questionable patents.

D. The Federal Circuit Has Made Patents More Versatile And Broadly Available.

The controversial extension of patents to pure software and then to business methods is the product of Federal Circuit decisions that conspicuously sidestep Supreme Court precedent. *See Gottschalk v. Benson*, 409 U.S. 63 (1972); *Parker v. Flook*, 437 U.S. 584 (1978);

Diamond v. Diehr, 450 U.S. 175 (1981). By virtually abolishing subject matter limitations on the patent system in a series of cases culminating in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1362 (Fed. Cir. 1999), the Federal Circuit has single-handedly transformed patent law from an exceptionalist regime tailored to technology to a generalist regime for all areas of human activity. *See* John R. Thomas, *The Patenting of the Liberal Professions*, 40 B.C.L. Rev. 1139, 1163-64 (1999).

Yet the extension of system in these new directions – on the one hand into the many elements of software and, on other hand, into non-technical business processes – has overwhelmed the administration of the patent system. Because software functions at so many different levels of granularity ranging from code-level algorithms to program features to business methods (most of which are implemented in software), it creates opportunities for claiming patents at multiple overlapping levels of abstraction.

Nearly forty years ago, a Presidential Commission warned against software patents because "all inventions should meet the statutory provisions for novelty, utility and unobviousness and [software] cannot readily be examined for adherence to these criteria." President's Commission on the Patent System, *To Promote the Progress of Useful Arts in an Age of Exploding Technology* § IV (1966). The poor quality of the business method patents granted in the wake of *State Street* spurred the PTO to launch a special initiative that included a second level of review. *See* Notice of Roundtable on Computer-Implemented Business Method Patent Issues, 65 Fed. Reg. 38,811, 38,112 (June 22, 2000). According to the PTO

director, this initiative cut the allowance rate in target class 705 ("Electronic Commerce") from 75% to 25%. *See* David Streitfeld, *Note: This Headline is Patented*, L.A. Times, Feb. 7, 2003, at A1. Despite this remarkable impact, indicating both the effectiveness of the program and the dire need for quality control, and an FTC recommendation that the practice be expanded to other economically important areas, second-level review has not been introduced outside of class 705. *See* FTC Report, Exec. Summ. at 14 (Recommendation 5c).

The expansion of the patent into software and business methods has engendered the most common and visible complaints about patent quality and the negative effects of patenting. The FTC sector-by-sector analysis shows that patent quality and the role of the patent system in innovation is perceived most negatively in the software and Internet sector. *Id.*, ch. 3, at 44. Accordingly, the FTC recommends considering "possible harm to competition – along with other possible benefits and costs – before extending the scope of patentable subject matter." *Id.*, Exec. Summ. at 14 (Recommendation 6). The negative U.S. experience with patents in these areas has crystallized consensus in Europe against business method patents, and contributed to the failure of a directive on "computer-implemented inventions" that would have validated European Patent Office standards on software patents.[4] The difficulties experienced in the software and

[4] *See "Should Patents be Granted for Computer Software or Ways of Doing Business?" The Government's Conclusion*, United Kingdom Patent Office, March 2001, *available at* http://www.patent.gov.uk/about/consultations/conclusions.htm; European Parliament News, Software patents: the 'historic vote' in the European Parliament brings the battle to an end, July 9, 2005, *available at* http://www.europarl.eu.int/news/

(Continued on following page)

Internet sector contrast dramatically with the views of the pharmaceutical industry, which views patents as essential to protecting products. *See* FTC Report, ch. 3, at 14, 50-56.

E. The PTO's Bureaucratic Interests Undermine Patent Quality.

The constellation of automatic injunctive relief and other Federal Circuit decisions coincides with the shift to fee-funding for the PTO in 1990. Fee-based funding gives the agency an incentive to increase the overall number of patent applications, grants, and maintenance fees in order to maximize its budget. This led to a new mission for the PTO's patent business, "to help customers get patents" and an explicitly expansionist performance goal: "Help protect, promote and expand intellectual property rights systems throughout the United States and abroad." *See* U.S. Patent and Trademark Office, *Corporate Plan 2000*, at 17; U.S. Patent and Trademark Office, *Corporate Plan 2001*, at 23.

For example, the agency's internal incentive system rewards examiners for dispositions, thereby discouraging them from contesting claims (which only delays final dispositions). *See* Robert P. Merges, *As Many As Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L.J. 577, 607 (1999). The result has been a significant diminishment in patent quality, as reflected in an allowance rate possibly as high as 97 percent, when continuations are taken into account. *See* Cecil D. Quillen,

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public/focus_page/057-1002-255-9-37-909-20050819FCS01001-12-09-2005-2005/default_en.htm.

Jr. & Ogden H. Webster, *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Office*, 11 Fed. Cir. B.J. 1, 3 (2001). Under the Federal Circuit rule, however, the threat of automatic injunction will discourage firms from disputing these low quality patents.

II. By Exacerbating The Patent System's Problems, The Automatic Injunction Rule Encourages Litigation And Impedes Innovation.

Given the inherently rich functionality of information technology, these phenomena – the automatic injunction rule, the Federal Circuit's other expansive patent jurisprudence, and the customer orientation of the PTO – have triggered a patent arms race. Facing prodigious potential infringement, companies in the information technology sector hedge their bets by filing for hundreds of patents, expecting that "mutually assured destruction" will deter others from asserting patents against them. FTC Report, ch. 3, at 35-36.

This deterrent value is increasingly formalized in cross-licenses and non-assertion agreements that provide insurance against litigation. These cross-licenses also create insurance against competition, however, by permitting companies with large portfolios to extract "balancing payments" from smaller competitors. To sustain cross-licensing, companies engage in "portfolio racing" to ensure a steady stream of patents into their portfolios. Hence, the demand for patents keeps rising, perpetuating the arms race.

The density of patents in this innovation environment means that inadvertent infringement becomes unavoidable. This phenomenon reinforces the inflationary cycle."

As Cisco observed before the FTC, "[t]he only practical response to this problem of unintentional and sometimes unavoidable patent infringement is to file hundreds of patents each year ourselves so that we can have something to bring to the table in cross-licensing negotiations." *See Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy: Hearings Before the Federal Trade Commission*, Feb. 28, 2002 (statement of Robert Barr, Vice President, Worldwide Patent Counsel, Cisco Systems, Inc.) *available at* http://www.ftc.gov/opp/intellect/barrrobert.doc.

While portfolio accumulation is a rational strategy against present and potential competitors, it provides little protection against patent speculation by non-producers. Easily asserted patents, endowed with automatic injunctive relief, become potent weapons in the hands of non-producing patent firms, sometimes referred to as "trolls." These trolls profit solely from holding up producers, and therefore have no need for cross-licenses and no fear of mutually assured destruction. *See* FTC Hearings, *supra*; FTC Report, ch. 3, at 38. The trolls, therefore, are free to pursue aggressive litigation strategies based on questionable patents, which often yield settlements far in excess of the patents' true inventive contribution.

In sum, the Federal Circuit's standard for injunctive relief does not operate in a vacuum. In information technology, it provides an inordinately powerful weapon in a landscape of uncertainty. A litany of interrelated phenomena – low quality, portfolio racing, high transactions costs, widespread inadvertent infringement, opacity of patent information – make producers in this sector exceptionally vulnerable to claims of patent infringement. Automatic injunctive relief magnifies their exposure, making those

producers that contribute the most value to the marketplace the most vulnerable to catastrophe.

CONCLUSION

Efforts by Congress to correct the Federal Circuit's misinterpretation of 35 U.S.C. § 283 have been stalled by firms that benefit from the automatic injunction rule. Given the Federal Circuit's near exclusive jurisdiction over patent appeals, this Court remains the only forum where the automatic injunction rule, which magnifies the many flaws in the patent system, can be considered and reversed. Accordingly, CCIA respectfully requests the Court to grant the petition.

Respectfully submitted,

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IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF *AMICUS CURIAE* OF ELECTRONIC FRONTIER FOUNDATION IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST OF AMICUS

Electronic Frontier Foundation (EFF) is a non-profit, membership-supported civil liberties organization working to protect consumer interests, innovation and free expression in the digital world. EFF and its 15,000 duespaying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between intellectual property and the public interest. Because the Federal Circuit's automatic injunction rule may impact the exercise of free expression, an issue of critical interest to consumers, EFF believes it has a perspective to share that is not represented by the parties to this appeal, neither of whom speaks directly for the interests of consumers or the public interest generally.

Both parties have consented to the filing of this brief.[1]

SUMMARY OF ARGUMENT

The Federal Circuit Court of Appeals has overstepped its bounds and, in the process, tied the hands of federal judges around the nation. Flagrantly rejecting the plain language of the United States Patent Code and the clear discretionary powers it grants, not to mention longstanding common-law remedies doctrines, the Federal Circuit has imposed an "automatic injunction" rule in patent cases that ignores important equitable considerations—including those affecting free speech and other activities protected by the First Amendment.

Strictly construed, the Federal Circuit's decision holds that a prevailing plaintiff in a patent case is entitled to an

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1. Per Rule 37.6, amicus states that no counsel for any party has participated, in whole or in part, in writing, or paying for, this brief. Both parties have consented to the filing of this brief and copies of their letters of consent are being filed concurrently with this brief.

language." Mark Lemley, Patent Reform Legislation, Testimony before the Senate Committee on the Judiciary, June 14, 2005, *at http://judiciary.senate.gov/testimony.cfm?id=1535&wit_id=4352*. This Court should pull the Federal Circuit back in line with its legislative mandate.

B. The Automatic Injunction Rule Dramatically Departs From Intellectual Property Remedies Doctrine.

The Federal Circuit also strays from relevant intellectual property jurisprudence. Court after court—including the Federal Circuit itself in previous decisions—has followed Congress' mandate and interpreted Section 283 to require the application of traditional equitable principles. *See, e.g., Roche Prods.*, 977 F.2d at 865 ("whether an injunction should issue . . . and the form it should take, certainly depends on the equities of the case."); *Odetics v. Storage Tech. Co.*, 14 F. Supp. 2d 785, 788 (E.D. Va. 1998), *aff'd* 185 F.3d. 1259 (Fed. Cir. 1999) ("the law is well settled that an injunction shall not issue with respect to any infringing product for which infringement the patentee has been awarded full compensation"); *NTP v. Research in Motion*, 2003 WL 23100881 (E.D. Va. 2003), *affirmed in part, vacated in part and remanded on other grounds in* 392 F.3d 1336 (Fed. Cir. 2004) (ordering permanent injunction where patent found valid and infringed and traditional equitable principles favored injunction); *B & H Mfg. Inc. v. Owens-Illinois Glass Container Inc.*, 22 U.S.P.Q.2d 1551, 1552 (N.D. Ga. 1991) (granting permanent injunction where patent infringed and "standard equity analysis" favored the plaintiff); *E.I. DuPont de Nemours & Co. v. Phillips Petroleum Co.*, 711 F. Supp. 1205, 1227 (D. Del. 1989) (employing "historical equitable principles applicable to injunctions" in entering injunction against patent infringer) (internal citations omitted). These courts recognized that while permanent injunctions may be

the "general rule" in patent cases, judges may not abandon their obligations to consider the equities of the particular case before them.

Copyright and trademark cases interpreting analogous statutes reflect the same patterns. While courts acknowledge a general rule favoring injunctive relief in both arenas, no court has read that general rule to deprive judges of the authority to exercise their discretion. With respect to trademark, the Lanham Act provides that courts may "grant injunctions *according to principles of equity* and upon such terms as the court may deem reasonable." Lanham Act § 34, 15 U.S.C. § 1116 (emphasis added). Courts have reasonably interpreted that statute to require consideration of traditional equitable principles prior to the issuance of a permanent injunction. *See, e.g.*, *Shields v. Zuccarini*, 254 F.3d 476, 486 (3d Cir. 2001) (permanent injunction appropriate where district court properly determined injunction would be in public interest and plaintiff would be irreparably harmed absent an injunction); *CFM Majestic, Inc. v. NHC, Inc.*, 93 F. Supp. 2d 942, 958-59 (N.D. Ind. 2000) (to obtain a permanent injunction, [plaintiff] must show that traditional equitable principles favor injunctive relief); *Partido Revolucionario Dominicano (PRD) Seccional Metropolitana de Washington-DC, Maryland y Virginia v. "Partido Revolucionario Dominicano, Seccional de Maryland y Virginia,"* 312 F. Supp. 2d 1, 10 (D.D.C. 2004) (same).

Similar discretion is exercised in copyright cases, even though the Copyright Act broadly authorizes courts to grant "final injunctions on such terms as [they] may deem reasonable." Despite this broad authorization, "final injunctive relief is not automatic." Paul Goldstein, *Goldstein on Copyright* § 13.2.1.1 (3d Ed. 2005); *see also, e.g.*, *New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) ("it hardly follows from today's decision [finding infringement] that an

injunction . . . must issue"); *Dun v. Lumberman's Credit Assoc.*, 209 U.S. 20, 20-21 (1908) (declining to issue injunction where defendant misappropriated some information and records from plaintiff's copyrighted work, but defendant's final product contained twenty-five percent more names and six times more subjects of information than the plaintiff's original text; "the proportion [of copying] is so insignificant compared with the injury from stopping appellee's use of their enormous volume of independently acquired information, that an injunction would be unconscionable."); *Taylor Corp. v. Four Seasons Greetings*, 403 F.3d 958, 967 (8th Cir. 2005) (propriety of a permanent injunction depended on balancing "(1) the threat of irreparable harm to the moving party; (2) the balance of harm between this harm and the harm suffered by the nonmoving party if the injunction is granted; and (3) the public interest."); *New Era Pubs. Int'l, APS v. Henry Holt Co.*, 884 F.2d 659, 661 (2nd Cir. 1989) (Miner, J., concurring) (injunctive relief should not be regarded as a mandatory, automatic sentence for a infringer: "equitable considerations are always germane to the determination of whether an injunction is appropriate."); *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) (finding "special circumstances" that would cause "great injustice" to defendants and "public injury" were injunction to issue), *aff'd sub nom. Stewart v. Abend*, 495 U.S. 207 (1990).

Moreover, copyright jurisprudence explicitly acknowledges what the Federal Circuit has forgotten: the "nice adjustment" between public and private interests that consideration of the equities requires is crucial in the intellectual property law context. In *Campbell v. Acuff-Rose Music*, for example, this Court observed that "courts may also wish to bear in mind that the goals of the copyright law, 'to stimulate the creation and publication of edifying matter,' [citation omitted] are not always best served by automatically

granting injunctive relief when parodists are found to have gone beyond the bounds of fair use." 510 U.S. 569, 578 n.10 (1994), citing Pierre Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1132 (1990) (while in the "vast majority of cases, [an injunctive] remedy is justified because most infringements are simple piracy," such cases are "worlds apart from many of those raising reasonable contentions of fair use" where "there may be a strong public interest in the publication of the secondary work [and] the copyright owner's interest may be adequately protected by an award of damages for whatever infringement is found").

Thus, the intellectual property case law makes it clear that public interest considerations must play a role in the determination of permanent injunctive relief, particularly where that relief may impact freedom of expression.

II. THE FEDERAL CIRCUIT'S AUTOMATIC INJUNCTION RULE DOES NOT PERMIT DUE CONSIDERATION OF COUNTERVAILING FREE SPEECH INTERESTS

This case comes before this Court at an opportune time. Every day, more and more citizens are using technology to exercise their First Amendment rights online. As a result, the Internet has become a

> dynamic, multifaceted category of communication [that] includes not only traditional print and news services, but also audio, video and still images, as well as interactive, real-time dialogue. Through the use of chat rooms, any person with a phone line can become a town crier with a voice that resonates farther than it could from any soapbox. Through the use of Web pages, mail exploders, and newsgroups, the same individual can become a pamphleteer.

Reno v. Am. Civil Liberties Union, 521 U.S. 844, 870 (1997). At the same time, the number of patents on Internet technologies has increased exponentially. Judicial decisions regarding issuing or denying injunctions on the use of these technologies may shape the future of online speech. In particular, consideration of the third traditional equitable factor—the impact of the patent injunction on the public interest—will play a crucial role in mediating between the Intellectual Property Clause and the First Amendment.

A. Patents Are Increasingly Affecting Free Expression Online.

Twenty years ago, it might have been possible to dismiss the public interest factor as effectively met by a prior infringement finding, absent a public health issue, because it could be assumed that the principal public interest at stake in patent litigation was the promotion of innovation through the patent system. *See, e.g., Polaroid v. Eastman Kodak*, 641 F. Supp. 828, 876 (D. Mass 1985), *denial of stay aff'd.*, 833 F.2d 930 (Fed. Cir. 1986) ("the public policy at issue in patent cases is the 'protection of rights secured by valid patents'"), quoting *Smith Int'l v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir., *cert. denied*, 464 U.S. 996 (1983).

Today this is no longer the case. Many new and pending patents "appropriate methods of communication." John R. Thomas, *Liberty and Property in the Patent Law*, 39 HOUS. L. REV. 569, 588 (2002). The United States Patent and Trademark Office has issued patents on methods for downloading video programs, publishing web pages, sending email messages, making internet telephone calls, and even fundraising online. Injunctions against uses of these technologies—and many similar technologies—must inevitably implicate free speech concerns.

Consider, by way of example, Acacia Research's aggressive campaign to enforce its patent on sending and receiving of streaming audio and video over the Internet. U.S. Patent No. 5,132,992 ("Audio and video transmission and receiving system"); Teresa Riordan, *A Patent Owner Claims to Be Owed Royalties on Much of the Internet's Media Content*, N.Y. Times, Aug. 16, 2004, at C6 ; M. Hachman, *Acacia Wins Small Victory against Porn Firms*, Extreme Tech, July 16, 2003, *at http://www.extremetech.com/article2/0,1558,1195937,00.asp*. This patent could cover everything from the transmission of home movies to documents to music—in other words, it could arguably cover most of what individuals, private corporations, political action committees, governments, etc. communicate on the Internet. Any injunction against an infringer could therefore affect the ability of thousands, perhaps millions, of innocent end users to communicate. Courts must be allowed to consider such impacts on speech prior to issuing any injunction.

Acacia's campaign is just the tip of the iceberg. As of this writing, no less than 212 patent applications are now pending on technologies designed for use in connection with "web logs" or "blogs" *i.e.*, Internet-based publications consisting primarily of periodic short writings and images.[2] *See, e.g.* William F. Patry, "The Patry Copyright Blog" *at http://www.williampatry.blogspot.com* (commenting on developments in copyright law); Multiple Authors, "SCOTUSblog" *at http://www.scotusblog.com/movabletype/* (reporting and commenting on United States Supreme Court

2. *See, e.g.*, U.S. Patent App. No. 20050055639 ("Relationship User Intereface"); U.S. Patent App. No. 20040267887 ("System and Method for Dynamically Managing Presence and Contact Information"); U.S. Patent App. No. 20040076345 ("Method for Referencing Image Data"); U.S. Patent App. No. 20030187739 ("System and Method of Providing and Interface to the Internet"); U.S. Patent App. No. 20020156879 ("Policies for Modifying Group Membership").

jurisprudence and politics). If the Internet is "a vast platform from which to address and hear from a world wide audience," *Reno*, 521 U.S. at 583, then blogs are an increasingly popular means by which individuals ranging from teenagers to political advocates to corporate executives speak on that platform. Blog content encompasses everything from highly personal writings to relatively neutral news reporting, and may reflect the contributions of one person or the collaboration of a large community. In the few short years of their existence, blogs have become crucial sources of expression and information. For example, in the aftermath of Hurricane Katrina, bloggers located in or near New Orleans provided timely first person accounts of the devastation. *See, e.g., Bloggers Joel and Jake Visit NOLA for Geek Aid*, September 10, 2005, *at http://www.boingboing.net/2005/09/10/katrina_bloggers_joe.html*; *Katrina: 'Rape, Murder, Beatings' in Astrodome, Say Evacuees*, September 7, 2005, *at http://www.boingboing.net/2005/09/07/katrina_rape_murder_.html*. The same outpouring of expression has occurred via the Internet regarding such topics as the War in Iraq and the 2004 Election. *See generally* Beth Potier, *How Did Internet Affect Election*, Harvard Univ. Gazette, Dec. 16, 2004, *at http://www.news.harvard.edu/gazette/2004/12.16/13-netvote.html*; Kathy Kiely, *Freewheeling 'Bloggers' Are Rewriting Rules of Journalism*, USA Today, Dec. 30, 2003, *at http://www.usatoday.com/news/politicselections/nation/2003-12-30-blogging-usat_x.htm*; *Bloggers and Journalists*, Online NewsHour, Feb. 14, 2005, *at http://www.pbs.org/newshour/bb/media/jan-june05/blog_2-14.html*. Moreover, many weblogs enable visitors to leave public comments, which can lead to a community of writers centered around the blog.

If patents are issued on blogging technologies, patent owners could threaten to shut down both bloggers and their commentators with automatic injunctions. Basic free speech values mandate that courts must at least consider such

potential effects before issuing a permanent injunction. The Federal Circuit's new standard offers little leeway for that consideration.

Political expression in the world of online grassroots activism may also be threatened. Consider a pending patent application that encompasses:

> A method for conducting a fundraising campaign by an organization or person over a wide-area network, comprising the steps of: hosting a website including a plurality of linked web pages, the website providing information about the fundraising campaign and soliciting potential donors to make a charitable contribution to the fundraising campaign; registering on the website; *contacting third parties via email messages soliciting charitable donations; and providing one or more reports, on the website, including information on the status of the fundraising campaign.*

"Method and system for an efficient fundraising campaign over a wide area network," U.S. Patent App. No. 20020091538 (emphasis added). Should the applicant succeed in obtaining this patent, it could seek injunctions against virtually every nonprofit in the nation, based, in large part, on those nonprofits expressive activity of contacting potential donors and providing information regarding those contacts. Moreover, such injunctive relief might be dangerously timed. Imagine the impact, for example, of timing one's motion to enjoin political advocates such as the Republican National Committee or Moveon.org from fundraising so that the injunction went into effect six months before an important election. Indeed, the threat of such a result could lead these groups to pay questionable license fees to the patent holder because the damage to their First Amendment

rights while the injunction was pending appeal would be irreparable.[3] This is not the proper balance of harms and equities, especially where freedom of expression is concerned.

Further, the Federal Circuit's rule potentially threatens yet another First Amendment concern—academic freedom. Every day, more and more entities are attempting to patent online education and research tools, from methods used in distance learning to online instruction in language, music, and mathematics—including a patent on using inductive reasoning to teach vocabulary.[4] An injunction against the use of these methods could directly impinge on academic speech and, by extension, academic freedom, long recognized as "a special concern of the First Amendment." *Keyeshian v. Bd. of Regents*, 385 U.S. 589, 603 (1967).[5] If, as this Court has

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3. Petitioners eBay, Inc., and Half.com, Inc., and amici America Online, Inc., Cisco Systems, Inc., and the Computer and Communications Industry Association have detailed the improper leverage the Federal Circuit's new injunctive relief standard would give to patent holders. Amicus EFF shares their concerns and, to avoid undue repetition, incorporates their arguments by reference here.

4. *See* U.S. Patent No. 6,513.042 ("Method for administering tests, lessons, assessments, and surveys on the Internet, scoring them, and maintaining records of test scores online"); U.S. Patent No. 5,649,826 ("Method and Device for Teaching Language"); U.S. Patent No. 6.015,947 ("Method of Teaching Music"); U.S. Patent No. 6,120,297 ("Vocabulary Acquistion [sic] Using Structure Inductive Reasoning"); U.S. Patent No. 6,155,836 ("System for Teaching Mathematics").

5. For example, Test.com has threatened several universities with lawsuits based on its patent claiming "A method of making a tests, assessments, surveys and lesson plans with images and sound files and posting them on-line for potential users." U. S. Patent No. 6,513,042; *see* Dan Carneval, *Company Claims to Own Online Testing*, Chron. Higher Ed., Mar 26, 2004, at 31.

declared, "Our Nation is deeply committed to safeguarding academic freedom, which is of transcendent value to all of us," *Regents of the Univ. of Calif. v. Bakke*, 438 U.S. 265, 312 (1978), then courts must have discretion to consider whether an injunction risks violating that commitment.

Finally, injunctive relief may even hamper the public interest in critical emergency communications. Congress' recent public plea to legal adversaries Research in Motion, Inc. (the manufacturer of technology that forwards a user's incoming email to a handheld device—called a Blackberry—via a customer-selected wireless network) and NTP, Inc., is a case in point. The House of Representatives' chief administrative officer asked the parties to settle their dispute over the rights to the Blackberry devices because any injunction shutting down the BlackBerry service could create "a serious risk to the House's critical communications and could jeopardize the public interest, particularly in the even of an emergency." *See* Jonathan Krim, *House Makes Plea to Keep Blackberrys*, Wash. Post, Jan. 17, 2003, at E01. Perhaps recognizing the ramifications of the litigation, the district court appropriately gave due consideration to traditional equitable principles before it that granted permanent injunctive relief to NTP—as it was required to do before the Federal Circuit imposed its new and untenable standard. *NTP*, 2003 WL 23100881 at *2.

These examples are but a small sampling of visible threats to free speech that patents present, relating primarily to Internet-based technologies. It is virtually certain that as new Internet technologies of communication develop, the need to assess the free speech implications of patents on those technologies will grow as well. Nor is there any reason to suppose that that need will be confined to injunctions affecting Internet technologies. If computer source code can be understood as "expression for First Amendment purposes." *Bernstein v. United States Dept. of Justice*, 176

F.3d 1132, 1139 (9th Cir. 1999), injunctions preventing use of a wide range of infringing software could impact the public interest in free speech in ways we cannot yet anticipate. Traditional equitable principles give judges both the flexibility and the rich precedential history they will need to deal with these new challenges.

B. Consideration of The Public Interest In Free Speech Should Not Be Exceptional But Rather Routine.

Amicus recognizes that the Federal Circuit did leave open a tiny "public interest window" by holding that judges may decline to enter an injunction when the injunction frustrates "an important public need." *MercExchange*, 401 F.3d at 1338. Taken in isolation, this holding could be read simply to restate the traditional equitable principle that injunctions may be denied if the third factor (impact on the public interest) so mandates.

Unfortunately, the court went a good deal further. First, the court effectively shifted the burden of proof to require defendants to establish the existence of an "important public need." Second, the only "important public need" that the court identified as sufficient to support denial of an injunction was "the need to use an invention to protect the public health." *Id.* Third, the court held that the growing public concern regarding the proliferation of business method patents did not qualify as an "important public need"—but failed to explain why. One valid reason for this growing public concern has been its effect on free expression online—something the Federal Circuit showed no interest in exploring or allowing any district court judge to explore. Fourth, the court took pains to stress that "the general rule" is "that court will issue permanent injunctions against patent infringement absent *exceptional circumstances*." *Id.* at 1339 (emphasis added).

The public interest should not take a backseat in patent cases. Courts of equity have long held that the public interest is an essential and fundamental factor in injunctive relief analysis, not something to consider only in "exceptional circumstances." As discussed supra at section I.B and in Petitioners' Brief at 17-22, it is axiomatic that courts must consider the public interest in the course of exercising their equity powers, absent a specific Congressional mandate to the contrary. "[I]t is the duty of a court of equity granting injunctive relief to do so upon conditions that will protect all-including the public-whose interests the injunction may affect." *Inland Steel v. United States*, 306 U.S. 153, 157 (1939); *see also Meredith v. City of Winter Haven*, 320 U.S. 228, 235 (1943) ("An appeal to the equity jurisdiction conferred on federal district courts is an appeal to the sound discretion which guides the determinations of courts of equity [citation omitted]. Exercise of that discretion by those, as well as by other courts having equity powers, may require them to withhold their relief in furtherance of a recognized, defined public policy."). The Federal Circuit does not explain, much less support, its decision to reject these black-letter rules.

Moreover, the public interest should not be limited to narrow issues such as "risk to public health" but rather kept broad and flexible so that courts may consider whatever issues pertain to a particular situation and circumstance. Again, this is nothing more than black-letter law. *Hecht Co.*, 321 U.S. at 329 ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it.").

Indeed, the Federal Circuit's narrow "important public need" standard is particularly offensive when injunctive relief implicates free speech concerns. Courts assessing the propriety of injunctive relief in other contexts routinely

consider First Amendment interests as part of the third equitable factor. This Court has held that injunctions "carry greater risks of censorship and discriminatory application than do general ordinances" and "require a somewhat more stringent application of general First Amendment principles." *Madsen v. Women's Health Ctr.*, 512 U.S. 753, 764-65 (1994). The Federal Circuit offers no reason why the *Madsen* rule should not apply to injunctions in patent cases.

This Court should ensure that the public interest is not forgotten in patent litigation by rejecting the Federal Circuit's radical and unnecessary departure from the traditional injunction test and reaffirming consideration of the public interest as a routine and essential step in the exercise of judicial discretion.

CONCLUSION

The Federal Circuit's effort to calcify a "general rule" into a mandate deprives judges of their statutorily mandated discretion and frustrates both the intent of the Patent Act and the public interest. This Court should grant the Petition in order to correct the standard for patent injunctions and restore judges' ability to take full account of the public interest.

Respectfully submitted,

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No. 05-130

In the Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF AMICI CURIAE QUALCOMM INCORPORATED, TESSERA, INC. AND BIOGEN IDEC INC. IN SUPPORT OF RESPONDENT

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QUESTION PRESENTED

Whether the Court of Appeals for the Federal Circuit erred when it followed this Court's decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), and applied the well-established presumption that a patentee who obtains a judgment of infringement of a valid patent is entitled to a permanent injunction to enforce its statutory right to exclude others from practicising the invention.

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BRIEF OF AMICI CURIAE QUALCOMM, INC., TESSERA, INC. AND BIOGEN IDEC INC. IN SUPPORT OF RESPONDENT

Interest of the *Amici*

This brief is filed with the consent of the parties[1] on behalf of QUALCOMM Incorporated, Tessera, Inc. and Biogen Idec Inc. Qualcomm is a leading developer and

[1] The parties' letters of consent have been filed with the Clerk in compliance with Rule 37.3. This brief was not authored in whole or in part by counsel for any party. No person or entity other than the *amici* made a monetary contribution to the preparation or submission of this brief.

innovator of Code Division Multiple Access (CDMA) and other advanced wireless technologies. Headquartered in San Diego, Calif., Qualcomm is included in the S&P 500 Index and is a 2005 FORTUNE 500® company. Qualcomm presently has more than 3,000 United States patents and patent applications. Qualcomm's technology and semiconductor products are widely used in the manufacture of cellular telephones and other wireless devices. Qualcomm has licensed its technology to more than 125 leading telecommunications and consumer electronics equipment manufacturers around the world.

Tessera is a leading provider of miniaturization technologies enabling the semiconductor industry to build smaller, faster, and more reliable electronic products. Tessera presently has over 325 issued United States patents and over 50 licensees in the area of computer chip packaging technology, including the world's top semiconductor companies such as Intel, Samsung, Renesas, Toshiba and Texas Instruments, as well as a number of universities. Over 4.5 billion computer chips incorporating Tessera's miniaturization technology have been integrated into a range of wireless, computing, gaming, entertainment, medical, and defense-related electronic products. Tessera's ability to continue to innovate depends upon its ability to license its technology and enforce its patents.

Biogen Idec Inc. is a global biotechnology company with leading protein-based therapeutic products for oncology, neurology and immunology. Biogen Idec presently has over 180 issued United States patents and is a licensor or licensee of numerous patents. Biogen Idec was created by the 2003 merger of Biogen, founded in 1978, and IDEC Pharmaceuticals, founded in 1985. In the past 27 years, Biogen Idec has invested more than $3.9 billion in the research and development of biologics, and has discovered

more than 7 significant therapies for serious and life-threatening diseases, including multiple sclerosis, cancer, hepatitis B and psoriasis. Because the development and commercial production of biologics involves an extensive effort to invent, develop, test and gain federal approval, Biogen Idec's ability to innovate depends upon its ability enforce its patents and license its technology.

The viability of the wireless, semiconductor miniaturization and biotechnology industries depends in significant part on the maintenance of strong patent laws. The *amici* believe the well-established presumption in favor of permanent injunctive relief to implement a final judgment of infringement is essential to the ability of patent holders to enforce their patents. The petition in this case seeks to dramatically alter the established system and would, if granted, cast a cloud over the ability of holders of United States patents to maintain technological leadership.

Summary of Argument

Contrary to the argument in the Petition, the decision of the Federal Circuit does not conflict with this Court's prior decisions, the prior decisions of the various Courts of Appeals, or the requirements of 35 U.S.C. § 283. The Federal Circuit decision properly applies a well-established principle of patent law decided by this Court in the 1908 *Paper Bag Case*.

Moreover, the issue presented is presently pending before Congress in its consideration of the Patent Act of 2005, a fact that warrants the Court's exercise of judicial restraint to permit the legislative process to continue. Finally, it is likely that no injunction will ever issue given the fact that all of the claims in all of the patents-in-suit have been rejected by the Patent Office in re-examination

proceedings commenced after the judgment of infringement was entered. (Pet. at 15, n. 2)

Argument

I. The Court of Appeals Correctly Followed Almost 100 Years of Precedent When It Held that a Prevailing Patentee is Presumptively Entitled to an Injunction to Enforce Its "Right to Exclude" Infringers

The petition in this case rests on the erroneous assertion that the Court of Appeals' decision "is fundamentally incompatible with this Court's precedents . . . ." (Pet. at 2). Nothing could be further from the truth. Since the earliest days of the United States patent system, the Justices of this Court have recognized that the fundamental right protected by patents is the "right to exclude" others from infringing and that this right can only be protected through injunctions. Accordingly, this Court long ago established the presumption that the Court of Appeals correctly applied in this case.

A. Contrary to Petitioners' Implication, The Court's Decision in the Paper Bag Patent Case Established The Principle That A Prevailing Patentee is Presumptively Entitled to an Injunction

With only one exception, the discussion of the Court's precedents in the petition does not consider any patent cases involving an injunction. The sole exception is the discussion of the 1908 decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, at page 24 of the petition. The petition's selective quote from that decision

seems to provide support for the proposition that the presumption of a final injunction is inconsistent with the Court's precedents. A reading of the entire paragraph from the opinion reveals that this Court squarely rejected the argument advanced by the petitioners. The *Paper Bag Case* decision is in fact the foundation of the established presumption applied here by the Court of Appeals. What petitioners actually seek is to overrule the Court's 1908 decision.

The *Paper Bag Case* was a bill in equity to enjoin the Continental Paper Bag Co., a competitor of the Eastern Paper Bag Co., from infringing a patent covering a particular machine for making paper bags. Continental argued that a court of equity had no jurisdiction to issue an injunction because Eastern's patent was "a mere paper proposition which [Eastern] has never put into effect or use." *Id.* at 406. Continental made the same policy argument that the petitioners advance here: "[I]t is contrary to equity to suppress a useful and established business" in a case where the patent owner "simply owns [a] patent that has never been employed by that complainant in any way. . . ." *Id.* at 406-07. The Circuit Court had expressly recognized that "the complainant, so to speak, locked up its patent. It ha[d] never attempted to make any practical use of it, either itself or through licenses, and, apparently, its proposed policy has been to avoid this." *Id.* at 427-28. That court had "no doubt that the complainant stands in the common class of manufacturers who accumulate patents merely for the purpose of protecting their general industries and shutting out competitors." *Id.* at 428.

The Court answered the policy argument unequivocally:

> As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.
>
> The right which a patentee receives does not need much further explanation. We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor.
>
> *Id.* at 429 (internal citation omitted).

This Court concluded that Eastern was entitled to an injunction, notwithstanding the fact that it never made any use of the patented invention.

Petitioners quote three isolated sentences from the Court's *Paper Bag Case* decision to support their suggestion that the Court of Appeals' decision ignores this Court's established jurisprudence. The error in that selective quotation is apparent from a reading of the complete paragraph in the 1908 decision:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention

> of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee. *If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many actions. These are well-recognized grounds of equity jurisdiction, especially in patent cases, and a citation of cases is unnecessary.* Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction we do not decide.

Continental Paper Bag, 210 U.S. at 429, (portion quoted by Petitioners in italics).

It is clear beyond question that this Court established a special rule for injunctions in patent cases. Because the essential right granted by a patent is the right to exclude others from using the invention, that right can only be assured by an injunction, unless there is a public interest factor that justifies withholding injunctive relief.

B. The Decision in the Paper Bag Patent Case Rested on Well-Established Principles of Equity and Patent Law

The Court's decision in the *Paper Bag Case* rested on principles of patent law that had been established at the beginning of the patent system in 1790. Chief Justice Marshall noted in 1823 that "it cannot be doubted that the

settled purpose of the United States has ever been, and continues to be, to confer on the authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent." *Grant v. Raymond*, 31 U.S. 218, 241 (1823). The following year Justice Story noted that "[t]he patent acts have given to the patentee a right to sue at common law, for damages for any violation of his invention; and have given him a farther right to claim the interference of a Court of equity, by way of injunction, to protect the enjoyment of his patent." *Ex parte Wood*, 22 U.S. 603, 608-09 (1824).

Justice Story subsequently stated that "[i]t is quite plain that, if no other remedy could be given in cases of patents and copyrights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation without ever being able to have a final establishment of his rights." Story, COMMENTARIES ON EQUITY JURISPRUDENCE AS ADMINISTERED IN ENGLAND AND AMERICA § 931 (13ed. 1886). He noted that, as with the first English patent law in 1624, injunctive relief became firmly established in the courts of Chancery during the reign of James I. *Id.*

The Court in the *Paper Bag Case* reviewed its prior cases that expressed its views on the relative rights of the patent and the public, and found that "whenever this court has had occasion to speak it has decided that an inventor receives from a patent the right to exclude others from its use for the time prescribed in the statute." 210 U.S. at 425.

C. The Court Has Consistently Recognized The Patentee's Entitlement to An Injunction in Its Decisions After the Paper Bag Patent Case

Petitioners suggest that there is a public policy in favor of allowing competitors to infringe and pay damages

when a patent is not being practiced through commercial use. (Pet. 25-27). The Court rejected the argument more than a century ago:

> Counsel seem to argue that one who has made an invention and thereupon applies for a patent therefor, occupies, as it were, the position of a quasi trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible. We dissent entirely from the thought thus urged. The inventor is one who has discovered something of value. *It is his absolute property.* He may withhold the knowledge of it from the public, and he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention.

United States v. American Bell Tel. Co., 167 U.S. 224, 250 (1897)(emphasis added).

The decision in the *Paper Bag Case* has been cited and consistently followed in subsequent decisions. *E.g., United States v. United Shoe Machinery Co.*, 247 U.S. 32, 57 (1918); *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 34-35 (1923); *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 (1945); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980). There is no need to reconsider that established precedent.

D. There Is No Conflict Among the Circuits or Within the Federal Circuit

Petitioners recognize that there is no conflict among the circuits (Pet. at 21), but they suggest the decision in this case conflicts with prior Federal Circuit decisions. (Pet. at 17-18). In fact the Federal Circuit has followed and applied the *Pager Bag Patent Case* precedent throughout its history.

Almost exactly a year after its creation, the Federal Circuit recognized the established presumption in favor of injunctive relief for patentees who obtained a judgment of infringement and validity.

> Once the patentee's patents have been held to be valid and infringed, he should be entitled to the full enjoyment and protection of his patent rights. . . . A court should not be reluctant to use its equity powers once a party has so clearly established his patent rights. We hold that where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed. To hold otherwise would be contrary to the public policy underlying the patent laws.

Smith International, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1581 (Fed. Cir. Oct. 6, 1983). The Federal Circuit noted and discussed the specific language of 35 U.S.C. § 283 in *Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc.*, 733 F.2d 858, 865 (Fed. Cir. 1984) and *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1564 (Fed. Cir. 1984). That court noted that "[w]hile the grant of injunctive authority is clearly in discretionary terms, injunctive relief against an infringer is the norm." *KSM Fastening Systems v.*

H.A. Jones Co., 776 F.2d 1522, 1524 (Fed. Cir. 1985). The presumption was again recognized in *W.L. Gore & Associates, Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted. This court has indicated that an injunction should issue once infringement has been established unless there is a sufficient reason for denying it.") (internal citations omitted).

The Federal Circuit has not decreed that permanent injunctions are automatic once there is a judgment for infringement of a valid patent. "If a patentee's failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent. . . . *See, e.g., Hybritech, Inc. v. Abbott Lab.*, 4 U.S.P.Q.2D (BNA) 1001 (C.D. Cal. 1987) (public interest required that injunction not stop supply of medical test kits that the patentee itself was not marketing), *aff'd*, 849 F.2d 1446 (Fed. Cir. 1988). . . ." *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547-48 (Fed. Cir. 1995) (en banc). The Federal Circuit's view is consistent with the scope of the Court's decision in the *Paper Bag Case*, in which the Court reserved judgment as to "[w]hether, . . ., a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction . . . ." 210 U.S. at 430. It is important to note that the Federal Circuit recognizes that the public interest is not -- as Petitioner describes it -- limited to public health considerations, but extends to all matter of public concern.

II. The Court Need Not Step Into the Ongoing Legislative Consideration of the Established Policy Regarding Injunctions in Patent Cases

The petition includes a public policy argument for changing settled law regarding injunctions to protect a patentee's right to exclude. The same argument is presently being advanced in Congress in support of pending legislative proposals to amend the patent laws. *See, e.g., Oversight Hearing on the Committee Print Regarding Patent Quality Improvement. (Part I), House Jud. Comm. (Apr. 20, 2005); Legislative Hearing on H.R. 2795, the "Patent Act of 2005.", House Jud. Comm. (June 9, 2005); Legislative Hearing on "The Amendment in the Nature of a Substitute to H.R. 2795, the 'Patent Act of 2005'", House Jud. Comm. (Sept. 14, 2005)".* The petitioners here seek to obtain the same result that the proponents of pending legislation seek to obtain from Congress.

The pending legislative process has precipitated extensive debate and testimony before congressional committees. As is true with other controversial policy issues, the legislative process affords all interested parties an opportunity to state their views and engage in full and active dialogue with the decision-makers. The judicial process necessarily affords a far less fulsome and democratic mechanism for hearing and considering the full range views of the affected entities.

Judicial restraint counsels against the Court's exercise of discretion to grant review when the issue is actively under consideration by the Legislative Branch. As Justice Powell stated for himself, Chief Justice Burger and Justice Blackmun, "confidence in the restraint of the Court is

impaired, when we appear unnecessarily to decide sensitive issues of broad social and political importance at the very time they are under consideration within the prescribed constitutional processes." *Frontiero v. Richardson*, 411 U.S. 677, 692 (1973) (concurring opinion). That observation regarding the pendency of the Equal Rights Amendment applies equally as well to this petition given the pendency of the Patent Act of 2005.

III. This Case Is Not Appropriate For Review Because No Injunction Has Been Entered and an Injunction May Not Ever Be Entered

No injunction has issued in this case. The district court denied an injunction and the mandate of the Federal Circuit has been stayed. In the meantime, the United States Patent and Trademark Office has questioned the patentability of all of the patents on which the judgment of infringement was entered, and all of the claims in all of the patents at issue stand rejected in the reexamination proceedings at the request of petitioner eBay, Inc. (Pet. at n. 2, p. 15).[2] While the administrative proceedings have not reached the stage of a final determination of invalidity, it appears that the patents in issue will be held to be void *ab initio*. By the time this matter returns to the district court, the legal basis for any

[2] As of September 23, those patents remain rejected.

injunction may well have disappeared.[3] Accordingly this particular case is an inappropriate vehicle for review, even if the issue presented justified review by the Court.

Conclusion

For the reasons stated, the Court should deny the Petition.

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[3] If the Court denies the petition the case could be returned to the district court in the late fall/early winter of this year. If the Court were to invite the Solicitor General to submit his views and thereafter deny the petition, the case would not likely return to the district court until sometime in 2006. If the Court were to grant the petition and hear argument, the delay in any action by the district court would be even greater. Since the reexamination proceeding will continue regardless of the Court's action on the petition, granting review would only increase the probability that no injunction will ever be entered, rendering any decision here moot.

SEP 26 2005

No. 05-130

IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF *AMICI CURIAE* OF 35 INTELLECTUAL PROPERTY PROFESSORS IN SUPPORT OF THE PETITION FOR CERTIORARI

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INTEREST OF *AMICI CURIAE*

Amici are scholars at American law and business schools who teach, write about, or have an interest in patent law. Amici have no stake in the outcome of this case,[1] but are interested in ensuring that patent law develops in a way that best promotes innovation. A full list of amici is appended to the signature page. Both petitioner and respondent have consented to the filing of this brief.

REASONS FOR GRANTING THE PETITION

I. The Federal Circuit Has Abandoned the Role of Equity, in Defiance of the Statutory Language

Section 283 of the Patent Act is quite clear: district courts are granted the discretion to decide whether and under what circumstances to issue patent injunctions. The statute provides that courts "may" grant injunctions once infringement is found, but only "in accordance with principles of equity" and "on such terms as they deem reasonable." 35 U.S.C. § 283. Those principles of equity are well-established in a long line of cases, both from this Court and from the regional circuits. *See, e.g., Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (setting out the four equitable factors to be considered in granting injunctive relief: (i) whether the plaintiff would face irreparable injury if the injunction did not issue; (ii) whether the plaintiff has an adequate remedy at law; (iii) whether granting the injunction is in the public interest; and (iv) whether the balance of hardships tips in the plaintiff's favor); *see also*

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1. No party other than the signatories has authored or paid for any part of this brief.

Mueller v. Wolfinger, 68 F. Supp. 485, 488 (D. Ohio 1946) (applying the factors under predecessor to Section 283).

The Court of Appeals for the Federal Circuit has effectively read the terms "may" and "in accordance with principles of equity" out of the statute. In no case in the last twenty years has the Federal Circuit permitted a district court to apply its equitable powers to refuse a permanent injunction after a finding of infringement.[2] Indeed, the court's grant of permanent injunctive relief is so automatic that it rarely even recites the equitable factors any longer, relying instead on an all-but-conclusive presumption that injunctive relief is appropriate. In this case, for example, the Federal Circuit made it clear that a district court had the power to deny injunctive relief only in exceptional circumstances. *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). Further, the only exceptional circumstance the court identified was one involving imminent danger to public health, in which case the court suggested it might be appropriate to consider the public interest in access to the invention.

The contrast with copyright cases is striking. The Copyright Act includes language quite similar to section

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2. The Federal Circuit occasionally affirms a refusal to grant *preliminary* injunctions, *see Hybritech Inc. v. Abbott Laboratories*, 849 F.2d 1446, 1458 (Fed. Cir. 1988), or to enter injunctions when the patentee has failed in some other aspect of proof, *see Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1273 (Fed. Cir. 1999) (patentee committed laches, and could not enjoin products produced during the period of its laches). But not since the 1984 decision in *Roche Products Inc. v. Bolar Pharmaceuticals Co.*, 733 F.2d 858, 866 (Fed. Cir. 1984), has it refused to enter a permanent injunction because of considerations of equity.

283, and which indeed seems more expansive than the patent statute with respect to injunctive relief because it lacks explicit reference to equity. 17 U.S.C. § 502(a) ("Any court . . . *may* . . . grant temporary and final injunctions *on such terms as it may deem reasonable*") (emphasis added). Nonetheless, this Court has twice noted that section 502(a) does not require the grant of injunctive relief after a finding of infringement. *See New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) ("it hardly follows from today's decision [finding infringement] that an injunction . . . must issue"); *Campbell v. Acuff-Rose Music Co.*, 510 U.S. 569, 578 n.10 (1994) ("courts may also with to bear in mind that the goals of the copyright law . . . are not always best served by automatically granting injunctive relief").

The Federal Circuit's failure to apply a similar standard to patent law, its willingness to consider applying only a single one of the four equitable factors governing injunctive relief, and the fact that in the last twenty years it has never in fact permitted a district court to deny a permanent injunction on equitable grounds, all mean that as a practical matter it has denied courts the authority given them by section 283 to grant injunctions "in accordance with principles of equity."

II. Application of Equitable Factors is Important to Avoid Abuse of the Patent System

The Federal Circuit's refusal to permit district courts to apply the language of the statute has potentially serious consequences for the operation of the patent system. The goal of the equity requirement in the injunctive relief sections of the patent law is to ensure that people who actually need injunctive relief to protect their markets or ensure a return on their investment can get it, but that patent owners cannot

use the threat of an injunction against a complex product based on one infringing piece to hold up the defendant and extract a greater share of the value of that product than their patent warrants. Unfortunately, such inappropriate "holdups" occur on a regular basis under the Federal Circuit's mandatory-injunction standard.

We should be clear that the application of equitable principles would not mean that injunctions are generally problematic. Patent law is a property rule, and injunctive relief is the appropriate remedy in ordinary patent cases. Injunctive relief is an important part of the patent law, and in most cases there will be no question as to the patentee's entitlement to such relief. To begin, equity warrants an injunction if the patentee practices the patent in competition with the accused infringer. Even if it doesn't, if the patentee sells a different product in the marketplace, equity should entitle it to an injunction to prevent its own invention (in the hands of an infringer) from competing with the product it does sell. Similarly, if patentees assign or exclusively license the patent to someone who competes in the marketplace, they should also be entitled to injunctive relief. And even if the patentee hasn't done these things in the past, if it begins to do so in the future equity would support injunctive relief. Patentees also ought to be entitled to an injunction in cases where the defendant copies the idea from the patentee, even if the patentee is not participating in the market and has no plans to do so. Infringers shouldn't be able to intentionally take the patented technology knowing they will only have to pay a royalty. Even if none of these things are true, some injunctions won't lead to a risk of holdup, and so even patentees who don't meet any of the criteria listed above will often be entitled to an injunction.

That said, an absolute entitlement to injunctive relief can and does permit unscrupulous patent owners to "hold up" defendants by threatening to enjoin products that are predominantly noninfringing and in which the defendant has already made significant irreversible investments. In numerous cases, the parties settle for an amount of money that significantly exceeds what the plaintiff could have made in damages and ongoing royalties had they won. In these cases it is not the value of the patent but the costs to the defendant of switching technologies midstream that are driving the price. For example, one patent owner charges a 0.75% royalty for patents that don't cover industry standards, and 3.5% for patents that do cover industry standards. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property*, 17 Berkeley Tech. L.J. 1043, 1059 n. 61 (2002). The technology isn't any better, but they can demand nearly five times as much money once the industry has made irreversible investments in a particular technology. This is of particular concern when the patent itself covers only a small piece of the product. A microprocessor may include 5,000 different inventions, some made by the manufacturer and some licensed from outside. If a microprocessor maker unknowingly infringes a patent on one of those inventions, the patent owner can threaten to stop the sale of the entire microprocessor until the defendant can retool its entire plant to avoid infringement. Small wonder, then, that patentees regularly settle with companies in the information technology industries for far more money than their inventions are actually worth. Defendants are paying holdup money to avoid the threat of injunctive relief. That's not a legitimate part of the value of a patent; it is a windfall to the patent owner that comes at the expense not of unscrupulous copyists but of legitimate companies doing their own research and development.

Traditional principles of equity give courts the tools to deal with this problem. Patent owners who do not manufacture the patented or any other competing good, and who seek only to license their invention at a reasonable royalty, should be entitled to injunctive relief only if they would be irreparably injured by the infringement. If the patentee has an adequate remedy at law, that fact properly cuts against granting injunctive relief. Those equitable principles also permit courts to consider the balance of the hardships, so that the ordinary grant of injunctive relief can be avoided where it would have significant negative consequences and little affirmative purpose, as in the case of the 5,000-component invention.

This case squarely presents that issue. eBay is a vibrant electronic marketplace with millions of users that contributes a great deal to the modern economy. The patentee does not compete with eBay in the market. Its interest is in obtaining a royalty. MercExchange can likely obtain a larger royalty from eBay by settlement if it can threaten to shut down eBay altogether. But in doing so it will not be capturing value associated with its invention, but value that eBay has actually contributed to the world. We do not express an opinion on how the application of the traditional equitable factors would actually come out in this case, but it is clear that there are significant issues that should have been considered and which the Federal Circuit's mandatory injunction rule has short-circuited.

III. This Court Is the Only Forum Reasonably Available to Redress This Problem

The Federal Circuit has had virtually exclusive jurisdiction over patent cases since 1982.[3] Before that time, some regional circuits denied permanent injunctive relief to patent owners based on their application of traditional equitable principles. *See, e.g., Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974); *Vitamin Technologists, Inc. v. Wisc. Alumni Res. Found.*, 146 F.2d 941, 956 (9th Cir. 1945); *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934). But because patent cases were never appealed to the regional circuits between 1982 and 2002, and only rarely since 2002, district courts are effectively bound to the Federal Circuit's mandatory injunction rule. Even in those rare modern cases in which regional circuits do hear patent cases, they may defer to the Federal Circuit's substantive legal rules. *See, e.g., Schinzing v. Mid-States Stainless*, 415 F.3d 807 (8th Cir. 2005). As a result, there is unlikely to be an opportunity for the legal standards to percolate through the various circuits. Unless this Court acts, the Federal Circuit's misreading of section 283 will become more and more firmly cemented in patent law, and parties will have neither incentive nor ability to present the issue in the future.

Nor can Congress easily solve this problem. While Congress is currently considering various proposals to reform the patent system, the existing statute unambiguously grants

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3. This Court recognized one exception to that jurisdiction in 2002: where a patent claim is filed only as a counterclaim to a non-patent cause of action, appeal is to the regional courts of appeals. *Holmes Group v. Vornado Air Circulation Sys.*, 535 U.S. 826 (2002).

courts the very equitable power that the Federal Circuit has denied them. When Congress has already spoken on an issue, and the circuit courts have ignored that congressional action, it should not be necessary to require Congress to reenact the same statute. It is the responsibility of the courts to apply the statute as it is written. Where the circuit courts have failed to do so, this Court should step in.

CONCLUSION

Amici respectfully urge this Court to grant the petition for writ of certiorari in order to confirm the applicability of traditional principles of equity to patent law.

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EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

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U.S. DISTRICT COURT
Eastern District of Virginia (Norfolk)

Civil Docket No. 01-CV-736

MERCEXCHANGE, L.L.C.,
Appellant,

v.

EBAY, INC., *et al.*,
Defendant-Appellee.

RELEVANT DOCKET ENTRIES

DATE	NO.	PROCEEDINGS
9/26/01	1	COMPLAINT, Filing Fee $ 150.00; jury demand (filed in Alexandria Division 9/26/01) (jcow) [Entry date 09/27/01]
9/28/01	—	Receipt #149093 (from Alexandria Division) for filing fee paid on 9/27/01 (jcow)
9/28/01	—	Jury Trial Flag (jcow)
9/28/01	—	SUMMONSES with one certified copy issued for eBay, Inc., Half.com, Inc., Returnbuy, Inc., and provided to counsel (jcow)
9/28/01	—	Magistrate's consent form mailed to plaintiff's counsel, financial disclosure forms and foreign counsel applications provided (jcow)
9/28/01	2	NOTICE of Attorney Appearance for Mercexchange, L.L.C. by Gregory N. Stillman, Kenneth Reed Mayo (jcow) [Entry date 10/01/01]

DATE	NO.	PROCEEDINGS
10/1/01	—	CASE assigned to Judge Jerome B. Friedman (jcow)
10/5/01	3	SUMMONS Returned Executed as to eBay, Inc., Half.com, Inc., Returnbuy, Inc. 9/27/01 Answer due on 10/17/01 for Returnbuy, Inc., for Half.com, Inc., for eBay, Inc. (jcow)
10/11/01	4	MOTION by Mercexchange, L.L.C. as to Emerson Vincent Briggs, III for admission pro hac vice, Filing Fee Paid $ 25.00 (jcow)
10/11/01	5	MOTION by Mercexchange, L.L.C. as to Scott Lynn Robertson for admission pro hac vice, Filing Fee Paid $ 25.00 (jcow)
10/11/01	6	MOTION by Mercexchange, L.L.C. as to Jennifer Ann Albert for admission pro hac vice, Filing Fee Paid $ 25.00 (jcow)
10/11/01	—	So Ordered: granting [4-1] motion by Mercexchange, L.L.C. as to Emerson Vincent Briggs, III for admission pro hac vice, Filing Fee Paid $ 25.00, entered and filed 10/11/01 signed by Judge Jerome B. Friedman) Copies Mailed: 10/11/01 (jcow) [Entry date 10/12/01]
10/11/01	—	So Ordered: granting [5-1] motion by Mercexchange, L.L.C. as to Scott Lynn Robertson for admission pro hac vice, Filing Fee Paid $ 25.00, entered and filed 10/11/01 signed by Judge Jerome B. Friedman) Copies Mailed: 10/11/01 (jcow) [Entry date 10/12/01]

DATE	NO.	PROCEEDINGS
10/11/01	—	So Ordered: granting [6-1] motion by Mercexchange, L.L.C. as to Jennifer Ann Albert for admission pro hac vice, Filing Fee Paid $ 25.00, entered and filed 10/11/01 signed by Judge Jerome B. Friedman) Copies Mailed: 10/11/01 (jcow) [Entry date 10/12/01]
10/12/01	—	Receipt # 31697 for pro hac vice fee paid on 10/11/01 (jcow)
		* * * *
12/7/01	29	AMENDED COMPLAINT by Mercexchange, L.L.C. ; (Answer due 12/18/01 for Returnbuy, Inc., for Half.com, Inc., for eBay, Inc.) amending [1-1] complaint; jury demand (vwar) [Entry date 12/10/01]
12/18/01	30	ANSWER by eBay, Inc. to amended complaint; jury demand (vwar) [Entry date 12/19/01]
12/18/01	31	ANSWER by Half.com, Inc. to amended complaint; jury demand (vwar) [Entry date 12/19/01]
12/18/01	32	ANSWER by Returnbuy, Inc. to amended complaint; jury demand (vwar) [Entry date 12/19/01]
12/19/01	—	Referred for 16(b) Conference (vwar)
1/11/02	33	ORDER: 26(f) attorneys' conference set 1/22/02 at 2:30 p.m.; 16(b) scheduling conference set 2:30 1/28/02; initial disclosure 2/11/02; no party required to respond to discovery sooner than 2/22/02; entered 1/11/02; and filed 1/11/02; (signed by Magistrate Judge Tommy E. Miller)

DATE	NO.	PROCEEDINGS
		Copies Nailed: 1/11/02 (afor) [Entry date 01/12/02]
1/28/02	—	16(b) Conference held (vwar) [Entry date 01/31/02]
1/30/02	34	Rule 16(b) Scheduling Order: Jury trial set 10:00 a.m. on 7/29/02 at Norfolk. Expert *witnesses* to be identified by 3/29/02; disclosure outlined in Rule 26 (a) (2)(B) by 4/29/02; response to such disclosure by 5/29/02; rebuttal by 6/13/02; discovery by plaintiff(s) on or before 5/20/02; and defendant(s) on or before 6/17/02; discovery/ deposition in lieu of witness at trial concluded by 6/24/02; pretrial disclosures to be delivered to all counsel and unrepresented parties on or before 7/12/02; objections delivered by 7/17/02; an attorney's conference is set for 7/12/02 at 2:00 p.m.; a final pretrial conference shall be conducted on 7/19/02 at 11:00 a.m. entered 1/28/02 filed 1/30/02 (signed by Magistrate Judge Tommy E. Miller) Copies Mailed: 1/30/02 (vwar) [Entry date 01/31/02]
2/14/02	35	MOTION by eBay, Inc. for Charles Patrick Ebertin to appear pro hac vice, Filing Fee Paid $ 25.00; Receipt # 33232 (vwar)
2/15/02	—	So Ordered: granting [35-1] motion by eBay, Inc. for Charles Patrick Ebertin to appear pro hac vice, Filing Fee Paid $ 25.00; Receipt # 33232 (signed by Judge Jerome B. Friedman) Copies Mailed: 2/15/02 (vwar)

DATE	NO.	PROCEEDINGS
3/8/02	36	Protective Order setting forth terms and procedures for maintenance of confidential documents and information (see order for specifics), agreed, entered and filed 3/8/02 (signed by Judge Jerome B. Friedman) Copies Mailed 3/8/02 (vwar)
3/8/02	—	**Set Protective Order Flag. (vwar)
3/8/02	37	MOTION by eBay, Inc. for Protective Order pursuant to Federal Rule of Civil Procedure 26(c) (vwar) [Entry date 03/11/02]
3/8/02	38	MEMORANDUM in support of [37-1] motion for Protective Order by eBay, Inc., received (vwar) [Entry date 03/11/02]
3/8/02	38	Declaration of Steven R. Zahn Re: [37-1] motion for Protective. Order by eBay, Inc. (vwar) [Entry date 03/11/02]
3/19/02	39	MEMORANDUM by Mercexchange, L.L.C. in opposition to [37-1] motion for Protective Order by eBay, Inc., received. (vwar) [Entry date 03/20/02]
3/22/02	40	REPLY BRIEF by eBay, Inc. to response to [37-1] motion by eBay, Inc. for Protective Order by eBay, Inc., received (vwar)
3/27/02	41	MOTION by Mercexchange, L.L.C. to Compel Discovery (vwar) [Entry date 03/29/02]
3/27/02	42	MEMORANDUM in support of [41-1] motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 03/29/02]

DATE	NO.	PROCEEDINGS
3/27/02	—	Deadline updated; (vwar) [Entry date 03/29/02]
3/27/02	—	Deadline updated; to reset to 4/10/02 for [41-1] motion by Mercexchange, L.L.C. to Compel Discovery (vwar) [Entry date 03/29/02]
3/29/02	—	Motion hearing [37-1] motion by eBay, Inc. for Protective Order set at 11:30 4/3/02 (vwar)
4/1/02	43	EXPEDITED SECOND MOTION by Mercexchange, L.L.C. to Compel Discovery (vwar) [Entry date 04/02/02]
4/1/02	44	MEMORANDUM in support of [43-1] expedited second motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 04/02/02]
4/1/02	45	MOTION by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description (vwar) [Entry date 04/02/02]
4/1/02	46	MEMORANDUM by eBay, Inc. in support of [45-1] motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc., received (vwar) [Entry date 04/02/02]
4/1/02	46	Declaration by eBay, Inc. [45-1] motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc. (vwar) [Entry date 04/02/02]

DATE	NO.	PROCEEDINGS
4/1/02	46	Declaration of Chuck P. Ebertin by eBay, Inc. [45-1] motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc. (vwar) [Entry date 04/02/02]
4/1/02	47	MOTION by Half.com, Inc. for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid (vwar) [Entry date 04/02/02]
4/1/02	48	MEMORANDUM in support of [47-1] motion for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid by Half.com, Inc., received (vwar) [Entry date 04/02/02]
4/1/02	48	Declaration of Chuck P. Ebertin by Half.com, Inc. [47-1] motion for Summary Judgment that Claims 1-9 and 29-41 of *U.S.* Patent No. 6,085,176 are Invalid by Half.com, Inc. (vwar) [Entry date 04/02/02]
4/1/02	48	Declaration of Keith M. Basil in support of [47-1] motion for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid by Half.com, Inc. (vwar) [Entry date 04/02/02]
4/1/02	49	JOINT MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty (vwar) [Entry date 04/02/02]

DATE	NO.	PROCEEDINGS
4/1/02	50	MEMORANDUM in support of [49-1] motion for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received (Statement of Undisputed Facts attached separately) (vwar) [Entry date 04/02/02]
4/1/02	50	Declaration of Nicholas J. Magliato, Sr. Regarding the AMC System by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [49-1] joint motion for Summary Judgment that Claims 1,4,5,8,10,13,15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/02/02] [Edit date 04/02/02]
4/1/02	50	Declaration of Mark DiMaggio Regarding the AMC System by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [49-1] joint motion for Summary judgment that Claims 1,4,5,8, 10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/02/02] [Edit date 04/02/02]
4/1/02	50	Declaration of Allan M. Soobert by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [49-1] joint motion for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty *by* Returnbuy, Inc., Half.

DATE	NO.	PROCEEDINGS
		com, Inc., eBay, Inc. (vwar) [Entry date 04/02/02] [Edit date 04/02/02]
4/1/02	51	MOTION by eBay, Inc. for Summary Judgment that Claims 12, 14,15,17,18,19, 20,22,24,25,26,27,30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness (vwar) [Entry date 04/02/02]
4/1/02	52	MEMORANDUM in support of [51-1] motion for Summary Judgment that Claims 12,4,15,17,18,19,20,22,24,25,26,27,30,31,32, 34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness by eBay, Inc., received (UNDER SEAL) (Listing Of Undisputed Facts attached UNDER SEAL with Memorandum) (vwar) [Entry date 04/02/02]
4/1/02	52	Declaration of Choy Heng-Wah Regarding BidBroker Software-an Electronic Auction System by eBay, Inc. [51-1] motion for Summary Judgment that Claims 12, 14,15, 17,18,19,20,22,24,25,26,27,30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness by eBay, Inc. (vwar) [Entry date 04/02/02]
4/1/02	52	Declaration of Chuck P. Ebertin by eBay, Inc. in support of [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12, 14,15,17,18,19,20,22,24,25,26,27,30,31,32, 34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness by eBay, Inc. (Exhibits B and Q are

DATE	NO.	PROCEEDINGS
		filed UNDER SEAL) (vwar) [Entry date 04/02/02]
4/3/02	53	Minute entry: COURT PROCEEDINGS: TEM, USMJ; Sue Ash, OCR; Plaintiff appeared through Brian M. Buroker; Scott L. Robertson and Gregory N. Stillman; Defendant appeared through Steven R. Zahn and Allan Madis Soobert; came on for motion of defendant for protective order; argument; court directed defendant to answer by 4/12/02; court to prepare an order; court adjourned (vwar)
4/3/02	54	MOTION to defer ruling on motions for summary judgment until discovery is completed, to Strike defendants' summary judgment brief for exceeding page limits and violating Rule 37(c)(1), to amend schedule with respect to defendants' motions for summary judgment (vwar) (Entry date 04/04/02]
4/3/02	55	MEMORANDUM by Mercexchange, L.L.C. in support of [54-1] motion to defer ruling on motions for summary judgment until discovery is completed, [54-2] motion to Strike defendants' summary judgment brief for exceeding page limits and violating Rule 37(c)(1), (54-3] motion to amend schedule with respect to defendants' motions for summary judgment by Mercexchange, L.L.C., received (vwar) [Entry date 04/04/02]

DATE	NO.	PROCEEDINGS
4/3/02	55	Declaration of K. Reed Mayo, Esq., (54-1] motion to defer ruling on motions for summary judgment until discovery is completed, [54-2] motion to Strike defendants' summary judgment brief for exceeding page limits and violating Rule 37(c)(1) by Mercexchange, L.L.C., (54-3] motion to amend schedule with respect to defendants' for summary judgment by Mercexchange, L.L.C. (vwar) [Entry date 04/04/02]
4/4/02	56	ORDER denying [37-1] motion by eBay, Inc. for Protective Order and directing defendant to respond to plaintiff's second and third requests for admissions by 4/12/02, entered and filed 4/4/02 (signed by Magistrate Judge TommyE. Miller) Copies Mailed: 4/4/02 [EOD Date: 4/4/02] (vwar)
4/4/02	—	CASE REFERRED to Magistrate Judge James E. Bradberry (afor)
4/9/02	57	STIPULATION AND ORDER (Agreed) extending the time for defendants to oppose plaintiff's Motion to Compel Discovery to 4/10/02, entered and filed 4/9/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 4/9/02 [EOD Date: 4/10/02] (vwar) [Entry date 04/10/02] [Edit date 04/10/02]
4/10/02	58	AGREED ORDER extending the time for plaintiff to file its response to defendants' [49-1], [47-1], [45-1] and [51-1] motions for summary judgment, to reset to 4/26/02 for [51-1] motion by eBay, Inc. for *Summary* Judgment that Claims 12, 14,15,17,18,19,

DATE	NO.	PROCEEDINGS
		20,22,24,25,26,27,30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness, reset to 4/26/02 for [49-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 U.S. Patent No. 5,845,265 are "Invalid for Lack of Novelty, reset to 4/26/02 for [47-1] motion by Half.com, Inc: for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid, reset to 4/26/02 for [45-1] motion by eBay, Inc. for Summary Judgment that all claims U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description, and directing defendants to reply to plaintiff's opossition, Reply to Response to Motion reset 5/3/02 , entered and filed 4/9/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 4/9/02 [EOD Date: 4/10/02] (vwar)
4/10/02	59	THIRD MOTION by Mercexchange, L.L.C. to Compel, and to Modify Rule 16(b) Scheduling Order *by* Mercexchange, L.L.C. (with Proposed Order) (vwar) [Entry date 04/11/02] [Edit date 04/11/02]
4/10/02	60	MEMORANDUM in support of [59-1] motion to Compel by Mercexchange, L.L.C., received (UNDER SEAL) (vwar) [Entry date 04/11/02]
4/12/02	61	AGREED ORDER mooting [41-1] motion by Mercexchange, L.L.C. to Compel Discovery, advising that the parties have

DATE	NO.	PROCEEDINGS
		resolved their disputes, entered and filed 4/12/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 4/12/02 [EOD Date: 4/15/02] (vwar) [Entry date 04/15/02]
4/12/02	62	CROSS MOTION by Mercexchange, L.L.C. by Mercexchange, L.L.C. for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description (Proposed Order attached) (vwar) [Entry date 04/15/02] [Edit date 04/15/02]
4/12/02	63	MEMORANDUM by Mercexchange, L.L.C. in support of [62-1] cross motion for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description by Mercexchange, L.L.C., received (vwar) [Entry date 04/15/02]
4/12/02	64	Document filed by plaintiff Mercexchange, L.L.C. titled Statement of Controverted Facts in opposition to [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12,14,15,17,18,19,20,22,24,25,26,27, 30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness by eBay, Inc. (vwar) [Entry date 04/15/02]
4/12/02	65	STATEMENT OF UNDISPUTED FACTS in Support of [62-1] cross-motion for summary judgment by plaintiff Mercexchange, L.L.C. (vwar) (Entry date 04/15/02]

DATE	NO.	PROCEEDINGS
4/12/02	63	MEMORANDUM by Mercexchange, L.L.C. in opposition to [45-1] motion by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc., received (vwar) [Entry date 05/17/02]
4/18/02	66	AGREED ORDER directing eBay to file a reply and opposition to plaintiff's cross-motion on 5/7/02, not to exceed 35 pages; and plaintiff will file a reply by 5/14/02 (see order for further details), entered and filed 4/18/02 signed by Judge Jerome B. Friedman) Copies Mailed: 4/18/02 [EOD Date: 4/18/02] (vwar)
4/18/02	67	FOURTH EXPEDITED MOTION by Mercexchange, L.L.C. to Compel Discovery (Proposed Order attached) (vwar) (Entry date 04/19/02] [Edit date 04/19/02]
4/18/02	68	MEMORANDUM by Mercexchange, L.L.C. in support of [67-1] four expedited motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 04/19/02]
4/22/02	69	FIFTH EXPEDITED MOTION by Mercexchange, L.L.C. to Compel Discovery, (Proposed Order attached) (vwar) [Entry date 04/23/02] [Edit date 04/23/02]
4/22/02	70	MEMORANDUM by Mercexchange, L.L.C. in support of [69-1] fifth expedited motion to Compel Discovery by Merc-

DATE	NO.	PROCEEDINGS
		exchange, L.L.C., received. (vwar) [Entry date 04/23/02]
4/22/02	71	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [59-1] third motion to Compel by Mercexchange, L.L.C., received. (vwar) [Entry date 04/23/02]
4/25/02	72	REPLY by Mercexchange, L.L.C. to response to [59-1] motion to Compel by Mercexchange, L.L.C., received (UNDER SEAL). (vwar) [Entry date 04/26/02] [Edit date 05/06/02]
4/26/02	73	MEMORANDUM by Mercexchange, L.L.C. in opposition to [47-1] motion by Half.com, Inc. for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid by Half.com, Inc., received (Exhibit C filed UNDER SEAL pursuant to attorney's letter dated 5/2/02). (vwar) [Entry date 04/29/02] [Edit date 05/06/02]
4/26/02	74	Declaration of. Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [73-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/29/02]
4/26/02	75	Declaration of Ophir, Frieder, Ph.D. by Mercexchange, L.L.C. [73-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/29/02]
4/26/02	76	Document filed by plaintiff Mercexchange, L.L.C. titled "Statement of Controverted

DATE	NO.	PROCEEDINGS
		Facts" [73-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/29/02]
4/26/02	77	MEMORANDUM by Mercexchange, L.L.C. in opposition to [49-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty, received (vwar) [Entry date 04/30/02]
4/26/02	78	Declaration of Alfred C. Weaver, Ph.D. by Mercexchange, L.L.C. [77-1] opposition memorandum (vwar) [Entry date 04/30/02]
4/26/02	79	Declaration of Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [77-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	80	Document filed by plaintiff Mercexchange, L.L.C. titled "Plaintiff's Statement of Controverted Facts in Opposition to Defendants' Joint Motion for Summary Judgment, etc." [77-1]-opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	81	MEMORANDUM by Mercexchange, L.L.C. in opposition to [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12,14,15,17,18,19,20,22,24,25,26,27, 30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness by eBay, Inc., received (vwar) [Entry date 04/30/02]

DATE	NO.	PROCEEDINGS
4/26/02	82	Declaration of Thomas G. Wollston by Mercexchange, L.L.C. [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	83	Declaration of Alfred C. Weaver, Ph.D. by Mercexchange, L.L.C. [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	84	Declaration of Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	85	Document filed by plaintiff Mercexchange, L.L.C. titled "Plaintiff's Statement of Controverted Facts in Opposition to Defendant's Motion for Summary Judgment, etc." [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/29/02	86	Declaration by eBay, Inc. of Yuen Ho Re: [71-1] opposition memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/30/02]
4/29/02	87	Declaration by eBay, Inc. of Brett .Healy Re: [71-1] opposition memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/30/02]
		* * * *
5/28/02	114	NOTICE of Hearing: set for 5/30/02 at 10:00 a.m. on plaintiff's Motion to Strike Fictitious Drawing in Connection with Defendants' Joint Motion for Partial

DATE	NO.	PROCEEDINGS
		Summary Judgment that Certain Claims of United States Patent No. 5,845,265 are Allegedly Invalid for Lack of Novelty (vwar) (Entry date 05/29/02]
5/30/02	—	Motion hearing held re: [89-1] motion by Mercexchange, L.L.C. to Strike Fictitious Drawing in Connection with Defendants' Joint Motion for Partial Summary Judgment [62-1] cross motion by Mercexchange, L.L.C. for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12,14,15,17,18,19,20,22,24,25,26,27, 30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness, [49-1] motion by Return-buy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1, 4, 5, 8, 10, 13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty [47-1] motion by Half.com, Inc. for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid, [45-1] motion by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description. (bwin)
5/30/02	115	Court Proceedings: JBF, USDJ. Sue Ash, OCR. Counsel appeared. Came for hearing on motions. Arguments heard. Court takes matter under advisement. (bwin)

DATE	NO.	PROCEEDINGS
5/31/02	116	ORDER directing that the deposition of John C. Phillips be conducted in Reston, Virginia as previously agreed, and that said deposition shall take place on 6/4/02, entered and filed 5/31/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 5/31/02 [EOD Date: 5/31/02] (vwar)
5/31/02	117	TRANSCRIPT OF PROCEEDINGS for dates of 5/13/02, before USMJ James E. Bradberry (vwar)
6/12/02	118	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery, and by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Extend discovery deadline (dmas)
6/12/02	119	MEMORANDUM in support of [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery, [118-2] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Extend discovery deadline, received. (dmas)
6/12/02	120	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Hearing on motion to compel and to extend discovery deadline (dmas)
6/14/02	121	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery (vwar)
6/14/02	122	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in support of [121-1] motion to Compel Discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar)

DATE	NO.	PROCEEDINGS
6/14/02	123	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Hearing on Motion to Compel (vwar)
6/14/02	124	EXPEDITED SIXTH MOTION by Mercexchange, L.L.C. to Compel Discovery (with proposed order) (vwar) [Edit date 06/14/02]
6/14/02	125	MEMORANDUM by Mercexchange, L.L.C. in support of [124-1] expedited sixth motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., received (vwar)
6/14/02	126	MEMORANDUM by Mercexchange, L.L.C. in opposition to [118-1] motion to Compel discovery by Returnbuy, Inc., Half.com, inc., eBay, Inc., received. (FILED UNDER SEAL) (vwar) [Edit date 06/14/02]
6/17/02	127	MOTION by Mercexchange, L.L.C. for Protective Order (Proposed Order attached) (vwar) [Entry date 06/18/02]
6/17/02	128	MEMORANDUM by Mercexchange, L.L.C. in support of [127-1] motion for Protective Order by Mercexchange, L.L.C., received. (vwar) [Entry date 06/18/02]
6/17/02	—	Deadline updated: to reset to 7/2/02 for [127-1] motion by Mercexchange, L.L.C. for Protective Order (vwar) [Entry date 06/18/02]

DATE	NO.	PROCEEDINGS
6/18/02	129	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [127-1] motion by Mercexchange, L.L.C. for Protective Order, received. (vwar)
6/18/02	130	MEMORANDUM by Mercexchange, L.L.C. in opposition to [121-1] motion to Compel Discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar) (Entry date 06/19/02]
6/19/02	131	MOTION by Mercexchange, L.L.C. for Protective Order (Proposed Order attached) (vwar) [Entry date 06/20/02]
6/19/02	132	MEMORANDUM by Mercexchange, L.L.C. in support of [131-1] motion for Protective Order by Mercexchange, L.L.C., received. (vwar) [Entry date 06/20/02]
6/20/02	—	Motion hearing [124-1] motion by Mercexchange, L.L.C. to Compel Discovery set at 2:30 6/24/02, [121-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery set at 2:30 6/24/02, [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery set at 2:30 6/24/02 (vwar) [Entry date 06/21/02]
6/21/02	133	REPLY by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to response to [121-1] motion to Compel Discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (FILED UNDER SEAL) (vwar)

DATE	NO.	PROCEEDINGS
6/21/02	134	MEMORANDUM by eBay, Inc. in opposition to [124-1] sixth expedited motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., received. (vwar)
6/21/02	135	REPLY by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to response to [118-1] motion to Compel discovery and for extension of discovery deadline by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (vwar)
6/21/02	135	Declaration of Steven R. Zahn by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [135-1] response reply by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
6/21/02	136	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [131-1] motion by Mercexchange, L.L.C. for Protective Order, received (FILED UNDER SEAL) (vwar)
6/24/02	137	NOTICE of Hearing: set for 6/24/02 at 2:30 p.m. on defendants' motion to compel discovery and for extension of discovery deadline, defendants' motion to compel discovery, and plaintiff's expedited sixth motion to compel discovery. (vwar)
6/24/02	—	Motion hearing held re: [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., [121-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery by Returnbuy,

DATE	NO.	PROCEEDINGS
		Inc., Half.com, Inc., eBay, Inc., [124-1] motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C. (glen) (Entry date 06/25/02]
6/24/02	138	MINUTE ENTRY: Hearing Proceedings; JEB, j.; Penny Wile, OCR; appearances by counsel; matter came on for #118, #121, and #124 motions to compel; court made rulings on the record and will prepare an order. (glen) [Entry date 06/25/02]
6/25/02	139	MOTION by Mercexchange, L.L.C. for Contempt (with proposed order filed UNDER SEAL) (vwar) [Edit date 06/26/02]
6/25/02	140	MEMORANDUM by Mercexchange, L.L.C. in support of [139-1] motion for Contempt with REspect to Court's Order Compelling Discovery by Mercexchange, L.L.C. (Filed UNDER SEAL) (vwar)
6/26/02	141	TRANSCRIPT OF PROCEEDINGS for dates of 6/24/02, Before USMJ Bradberry (vwar)
6/26/02	142	ORDER granting [124-1] motion by Mercexchange, L.L.C. to Compel Discovery, granting in part, denying in part [121-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery, granting in part, denying in part [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery, granting [118-2] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Extend discovery deadline to July 8, 2002, setting forth terms on each

DATE	NO.	PROCEEDINGS
		motion, see order for specifics, entered and filed 6/26/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 6/26/02 [EOD Date: 6/26/02] (vwar)
6/26/02	143	REPLY by Mercexchange, L.L.C. to response to [131-1] motion for Protective Order by Mercexchange, L.L.C., received. (vwar) [Entry date 06/27/02]
6/26/02	144	Minute entry: Telephone conference held on 6/18/02 with USMJ Bradberry and counsel for the plaintiff and defendant regarding depositions and other discovery issues, entered and filed 6/27/02 (vwar) [Entry date 06/27/02]
6/27/02	145	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Timothy Scott Teter to appear pro hac vice Filing Fee Paid $ 25.00; Receipt #35010 (vwar) [Edit date 07/09/02]
6/28/02	146	MOTION by Mercexchange, L.L.C. for Markman Hearing, and by Mercexchange, L.L.C. for Modification to the Scheduling Order (Proposed Order attached) (vwar) [Entry date 07/01/02] [Edit date 07/01/02]
6/28/02	147	MEMORANDUM by Mercexchange, L.L.C. in support of [146-1] motion for Markman Hearing, [146-2] motion by Mercexchange, for Modification to the Scheduling Order, received. (vwar) [Entry date 07/01/02]

DATE	NO.	PROCEEDINGS
6/28/02	—	Motion hearing [146-2] motion by Mercexchange, L.L.C. for Modification to the Scheduling Order set at 7/30/02 (vwar) [Entry date 07/29/02]
6/28/02	—	Motion hearing [146-1] motion by Mercexchange, L.L.C. for Markman Hearing set at 7/30/02 (vwar) [Entry date 07/29/02]
7/1/02	—	So Ordered: granting [145-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Timothy Scott Teter to appear pro hac vice Filing Fee Paid $ 25.00 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/1/02 (vwar)
7/1/02	148	Minute entry: COURT PROCEEDINGS; (JEB, USMJ) (Penny Wiley, OCR); Mr. G. Stillman, Esq. appeared on behalf of the pltf. Mr. R. McFarland, Eq. and Mr. J. Randall, Esq. apeared on behalf of deft E Bay, et al. Matter came before the court by motion by pltf for protective order (127). Arguments heard. Court granted in part/denied in part the protective order. Court to submit an order. (nlyt)
7/3/02	149	ORDER granting in part, denying in part [131-1] motion by Mercexchange, L.L.C. for Protective Order, (see Order for specifics), directing plaitniff to respond to the requests for admissions on or before 7/8/02, entered and filed 7/3/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 7/3/02 [EOD Date: 7/3/02] (vwar)

DATE	NO.	PROCEEDINGS
7/8/02	150	MEMORANDUM by eBay, Inc., Pierre Omidyar in opposition to [139-1] motion by Mercexchange, L.L.C. for Contempt, received. (vwar) [Entry date 07/09/02]
7/8/02	151	EXPEDITED SEVENTH MOTION by Mercexchange, L.L.C. to Compel Discovery (FILED UNDER SEAL with proposed order) (vwar) [Entry date 07/09/02]
7/8/02	152	MEMORANDUM by Mercexchange, L.L.C. in support of [151-1] expedited seventh motion Compel Discovery, received (FILED UNDER SEAL) (vwar) [Entry date 07/09/02]
7/10/02	153	ORDER granting [89-1] motion by Mercexchange, L.L.C. to Strike Fictitious Drawing in Connection with Defendants' Joint Motion for Partial Summary Judgment denying [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12, 14,15,17,18,19,20,22,24,25,26,27,30,31,32, 34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness, denying [49-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty, entered and filed 7/10/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/10/02 [EOD Date: 7/10/02] (vwar)

DATE	NO.	PROCEEDINGS
7/11/02	154	REPLY by Mercexchange, L.L.C. to response to [139-1] motion for Contempt by Mercexchange, L.L.C., received. (vwar) [Entry date 07/12/02]
7/12/02	155	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc., to Require MercExchange to Comply with Court Order (vwar)
7/12/02	156	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in support of [155-1] motion to Require MercExchange to Comply with Court Order by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar)
7/12/02	157	Request for Expedited Hearing by defendants on Motion to Require MercExchange to Comply with Court Order by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/18/02	158	MEMORANDUM by Mercexchange, L.L.C. in support of Claim Construction Arguments for Markman Hearing, received. (FILED UNDER SEAL) (vwar) [Entry date 07/19/02]
7/19/02	159	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in support of Claim Construction for United States Patent Nos. 5,845,265; 6,085,176 and 6,202,051 Submitted by Defendants, received. (FILED UNDER SEAL) (vwar)
7/19/02	160	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [151-1] motion to Compel Discovery by

DATE	NO.	PROCEEDINGS
		Mercexchange, L.L.C., received. (vwar) [Entry date 07/22/02]
7/19/02	161	TRANSCRIPT OF PROCEEDINGS for dates of 5/30/02, before USDJ Jerome B. Friedman, OCR - Susanne V. Ash (vwar) [Entry date 07/22/02]
7/22/02	167	Document filed by defendants requesting clarification of Court's July 10, 2002 Order (vwar) [Entry date 07/23/02]
7/23/02	162	Rebuttal Brief [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc., (FILED UNDER SEAL) received. (vwar)
7/23/02	163	Declaration of Michael Ian Shamos, Ph.D., J.D. by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/23/02	164	Declaration of Dr. Arthur M. Keller, Ph.D. by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/23/02	165	MOTION by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc. (FILED UNDER SEAL) (vwar) [Edit date 07/23/02]
7/23/02	166	MEMORANDUM by eBay, Inc. in support of [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and

DATE	NO.	PROCEEDINGS
		include an inequitable conduct affirmative defense by eBay, Inc. (FILED UNDER SEAL), received. (vwar)
7/23/02	166	Declaration of Allan M. Soobert by eBay, Inc. [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc. (vwar)
7/23/02	168	MEMORANDUM by Mercexchange, L.L.C. in opposition to [155-1] motion to Require MercExchange to Comply with Court Order by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar)
7/23/02	169	Reply by Mercexchange, L.L.C. to [158-1] support memorandum by Mercexchange, L.L.C., received. (vwar)
7/24/02	170	REPLY by Mercexchange, L.L.C. to response to [151-1] expedited seventh motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 07/25/02]
7/25/02	171	ORDER clarifying [153-1] order on denial of motions for summary judgment, entered and filed 7/25/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/25/02 [EOD Date: 7/26/02] (vwar) [Entry date 07/26/02]
7/26/02	172	Minute entry: Court Proceedings; (JEB, USMJ) (Penny Wile, O.C.R.); Mr. Stillman, Esq. appeared on behalf of pltf. Mr. McFarland, Esq. and Mr. Randall, Esq.

DATE	NO.	PROCEEDINGS
		appeared on behalf of the defts. Matter came before the court on a moton by defts to require pltf to comply with Court Order. (155). Arguments heard. Court granted in part/denied in part deft's motion. Court to submit order. (nlyt)
7/29/02	173	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Alan Arthur Wright to appear pro hac vice Filing Fee Paid $ 25.00; Receipt #35293 (vwar) [Edit date 07/30/02]
7/29/02	174	Declaration of Steven R. Zahn in Support of Submission to the Court of U.S. Paten Application Serial No. 08/427,820 by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (FILED UNDER SEAL) (vwar) [Edit date 07/29/02]
7/29/02	175	Declaration of Steven R. Zahn in Support of Submission to the Court of U.S. Patent Application Searial No. 09/253,021 by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/29/02	—	So Ordered: granting (173-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Alan Arthur Wright to appear pro hac vice Filing Fee Paid $ 25.00 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/30/02 (vwar) [Entry date 07/30/02]
7/29/02	176	MOTION with Memorandum in Support by eBay, Inc., Half.com, Inc., Returnbuy, Inc. by Returnbuy, Inc., Half.com, Inc., eBay,

DATE	NO.	PROCEEDINGS
		Inc. to Compel - Application for Order Requiring MercExchange to Answer Certain Requests for Admission (vwar) [Entry date 07/30/02]
7/30/02	—	Markman hearing held. (mgra)
7/30/02	177	Minute entry: HEARING PROCEEDINGS: JBF, j. Sue Ash, OCR, and Sharon Gregory, court reporter. Counsel appeared. Matter came on for Markman hearing. Opening statements. Argued. Court adjourned until tomorrow at 9:30 a.m... (mgra)
7/30/02	178	ORDER granting in part, denying in part [155-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Require MercExchange to Comply with Court Order (see order for specifics), entered and filed 7/30/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 7/30/02 [EOD Date: 7/31/02] (vwar) [Entry date 07/31/02]
7/31/02	179	TRANSCRIPT OF MARKMAN HEARING (DAY 1) for dates of 7/30/02, before USDJ Friedman, Susanne V. Ash, OCR (vwar)
7/31/02	180	Minute entry: HEARING PROCEEDINGS: JBF, USDJ. Sue Ash, OCR (am); Sharon Gregory (pm). Counsel appeared. Matter came on for continuation of Markman Hearing. Arguments heard. Rebuttal. Court takes matter under advisement. Court adjourned. (sche)

DATE	NO.	PROCEEDINGS
8/1/02	181	TRANSCRIPT of Markman Hearing before Judge Friedman on 7/30/02 (Day 1-B) (ariv)
8/1/02	182	TRANSCRIPT of Markman Hearing before Judge Friedman on 7/31/02 (Day 2A) (ariv)
8/2/02	183	TRANSCRIPT OF MARKMAN HEARING - DAY 2-B for dates of 7/31/02, before USDJ Frieedman, Sharon Baham Gregory, RPR (vwar) [Entry date 08/05/02]
8/5/02	184	MEMORANDUM by Mercexchange, L.L.C. in opposition to [165-1] motion by eBay, Inc. to Amend (19-1] answer to conform to proof and include an inequitable conduct affirmative defense, with attached appendix of exhibits, received. (FILED UNDER SEAL) (vwar) [Entry date 08/06/02] [Edit date 08/06/02]
8/6/02	—	Jury Trial set at 11/12/02 before Judge Jerome B. Friedman (vwar)
8/6/02	185	TRANSCRIPT OF PROCEEDINGS for dates of 7/26/02, before USMJ Bradberry, Penny C. Wile, OCR (vwar)
8/8/02	186	Document filed by defendants titled "Defendants' Identification of Videotaped Deposition Excerpts Played During Markman Hearing" (vwar) [Entry date 08/09/02]
8/8/02	187	REPLY by eBay, Inc. to response to [165-1] motion to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 08/09/02] [Edit date 08/09/02]

DATE	NO.	PROCEEDINGS
8/9/02	188	MEMORANDUM by Mercexchange, L.L.C. in opposition to [176-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel - Application for Order Requiring MercExchange to Answer Certain Requests for Admission, received. (vwar)
8/13/02	189	REPLY by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to response to [155-1] motion to Require MercExchange to Comply with Court Order, received. (vwar) [Entry date 08/14/02]
8/30/02	190	EXPEDITED EIGHTH MOTION by Mercexchange, L.L.C. to Compel Discovery (vwar)
8/30/02	191	MEMORANDUM by Mercexchange, L.L.C. in support of [190-1] expedited eighth motion to Compel Discovery, received (FILED UNDER SEAL) (vwar)
9/5/02	192	ORDER Amending [34-1] order, setting out certain deadlines as follows: Trial Date scheduled for 11/12/02, at 10:00 a.m., Final Pretrial Conference scheduled for 11/1/02, at 2:00 p.m., proposed voir dire and jury instructions shall be delivered to the Clerk on or before 11/5/02, entered and filed 9/5/02 (signed by. Magistrate Judge James E. Bradberry) Copies Mailed: 9/5/02 [EOD Date: 9/6/02] (vwar) [Entry date 09/06/02]
9/5/02	—	Final Pre-Trial Conference set at 2:00 p.m., 11/1/02 before Magistrate Judge James E. Bradberry (vwar) [Entry date 09/06/02]

DATE	NO.	PROCEEDINGS
9/10/02	193	MEMORANDUM by eBay, Inc. in opposition to [190-1] motion by Mercexchange, L.L.C. to Compel Discovery, received. (vwar) [Entry date 09/11/02]
9/12/02	—	Motion hearing held re: [176-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel - Application for Order Requiring MercExchange to Answer Certain Requests for Admission by Returnbuy, Inc., Half.com, Inc., eBay, Inc., [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc. by eBay, Inc. (bpea)
9/12/02	194	Minute entry: COURT PROCEEDINGS: JBF, j. Sue Ash, OCR. Counsel appeared. Matter came on for hearing on motion to amend (#165), and motion to compel (#176). Argued. Motion to amend - court directed deft. to provide the court and counsel the proposed amended pleading by Sept. 17, 2002, pltfs. to respond by Sept. 24, 2002, and any reply by Sept. 30, 2002 - court taking the motion under advisement at this time. Motion to compel - court directed pltf. to respond 10 days after the court renders a decision on the Markman Hearing. (bpea)
9/13/02	195	REPLY by Mercexchange, L.L.C. to response to (190-1] Eighth motion to Compel Discovery, received (FILED UNDER SEAL) (vwar) [Entry date 09/17/02]

DATE	NO.	PROCEEDINGS
9/17/02	196	FIRST AMENDED ANSWER to Complaint by eBay, Inc. : amends [30-1] complaint answer by eBay, Inc.; jury demand (vwar)
9/20/02	197	MOTION by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order (FILED UNDER SEAL with Proposed Order) (vwar) [Entry date 09/23/02]
9/20/02	198	MEMORANDUM by Mercexchange, L.L.C. in support of [197-1] motion to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order, received (FILED UNDER SEAL) (vwar) [Entry date 09/23/02]
9/23/02	199	TRANSCRIPT OF PROCEEDINGS (Telephone Conference) for dates of 9/19/02, before USMJ Jerome B. Friedman, Susanne V. Ash, OCR (vwar) [Entry date 09/24/02]
9/24/02	200	MOTION by Mercexchange, L.L.C. to Dismiss, and/or by Mercexchange, L.L.C. to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for Leave to Amend Answer (vwar) [Entry date 09/25/02]
9/24/02	201	MEMORANDUM by Mercexchange, L.L.C. in support of [200-1] motion to Dismiss by Mercexchange, L.L.C., [200-2]

DATE	NO.	PROCEEDINGS
		motion to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for Leave to Amend Answer, received (FILED UNDER SEAL) (vwar) [Entry date 09/25/02]
9/25/02	—	Jury Trial set at 4/22/03, at 10:00 a.m., before Judge Jerome B. Friedman (vwar) [Edit date 09/27/02]
9/25/02	—	Jury Trial set at 10:00 4/22/03 before Judge Jerome B. Friedman (vwar) [Entry date 09/27/02]
10/1/02	202	REPLY by eBay, Inc. to response to (165-1] motion to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense, received (FILED UNDER SEAL) (vwar) [Entry date 10/02/02]
10/1/02	203	MEMORANDUM by eBay, Inc. in opposition to ['197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order, received (FILED UNDER SEAL) (vwar) [Entry date 10/02/02]
10/1/02	202	Declaration of Robert W. McFarland by eBay, Inc. [202-1] response reply by eBay, Inc. (vwar) [Entry date 10/02/02]
10/2/02	204	Declaration of Robert W. McFarland by eBay, Inc. [203-1] opposition memorandum by eBay, Inc. (vwar)

DATE	NO.	PROCEEDINGS
10/4/02	205	REPLY by Mercexchange, L.L.C. to response to [197-1] motion to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order, received (vwar) [Entry date 10/07/02]
10/4/02	206	REPLY by Mercexchange, L.L.C. to response to [200-1] motion to Dismiss, [200-2] motion to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for to Amend Answer, received (FILED UNDER SEAL) (vwar) [Entry date 10/07/02]
10/15/02	—	Final Pre-Trial Conference set at 9:30 4/7/03 before Magistrate Judge James E. Bradberry (vwar)
10/16/02	—	Motion hearing [197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order set at 2:30 11/13/02, [190-1] motion by Mercexchange, L.L.C. to Compel Discovery set at 2:30 11/13/02, [151-1] motion by Mercexchange, L.L.C. to Compel Discovery set at 2:30 11/13/02, [139-1] motion by Mercexchange, L.L.C. for Contempt set at 2:30 11/13/02 before Magistrate Judge James E. Bradberry (vwar) [Entry date 10/17/02]

DATE	NO.	PROCEEDINGS
10/17/02	208	NOTICE of Hearing: scheduled for 11/13/02, at 2:30 p.m. before USMJ Bradberry on Plaintiff's Motion to Strike, Eighth Motion to Compel, Seventh Motion to Compel and Motion for Contempt (vwar) [Entry date 10/18/02]
10/18/02	207	ORDER AND OPINION regarding Markman hearing held on 7/30/02 and 7/31/02, regarding the construction of the claims in the '051, '176, and '265 patents (see order for specifics), entered and filed 10/18/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 10/18/02 [EOD Date: 10/18/02] (vwar)
10/18/02	209	MOTION by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, with proposed order (vwar) [Entry date 10/21/02] [Edit date 10/21/02]
10/18/02	210	MEMORANDUM by Mercexchange, L.L.C. in support of [209-1] motion to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, 2 versions received, redacted and unredacted versions (FILED UNDER SEAL) (vwar) [Entry date 10/21/02] [Edit date 10/21/02]
10/18/02	210	Declaration of Thomas G. Woolston by Mercexchange, L.L.C. [210-1] support memorandum, 2 versions - redacted and unredacted versions (FILED UNER SEAL)

DATE	NO.	PROCEEDINGS
		(vwar) [Entry date 10/21/02] [Edit date 10/21/02]
10/21/02	211	ORDER denying [200-1] motion by Mercexchange, L.L.C. to Dismiss, denying [200-2] motion by Mercexchange, L.L.C. to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for Leave to Amend Answer, granting [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc., entered and filed 10/21/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 10/21/02 [EOD Date: 10/22/02] (vwar) [Entry date 10/22/02]
10/21/02	212	ORDER granting in part, denying in part [62-1] cross motion by Mercexchange, L.L.C. for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description, denying [47-1] motion by Half.com, Inc... for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid, granting in part, denying in part (45-1] motion by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description (signed by Judge Jerome B. Friedman), entered and filed 10/21/02 Copies Mailed: 10/21/02 [EOD Date: 10/22/02] (vwar) [Entry date 10/22/02]

DATE	NO.	PROCEEDINGS
10/23/02	213	TRANSCRIPT OF PROCEEDINGS for dates of 9/12/02, before *USDJ* Jerome B. Friedman, Susanne V. Ash, OCR (vwar)
11/1/02	214	MOTION by Mercexchange, L.L.C. for Reconsideration of [212-1] order (Proposed Order attached) (vwar) [Entry date 11/04/02] [Edit date 11/04/02]
11/1/02	215	MEMORANDUM by Mercexchange, L.L.C. in support of [214-1] motion for Reconsideration of [212-1] order, received. (vwar) [Entry date 11/04/02]
11/12/02	216	MEMORANDUM by eBay, Inc. in opposition to [214-1] motion by Mercexchange, L.L.C. for Reconsideration of [212-1] order, received (vwar)
11/13/02	—	Motion hearing held re: [197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order by Mercexchange, L.L.C., (190-1] motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., [151-1] motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., [139-1] motion by Mercexchange, L.L.C. for Contempt by Mercexchange, L.L.C. (nlyt) [Entry date 11/14/02]
11/13/02	217	Minute entry: COURT PROCEEDING; (JEB, USMJ); (Horace Weiss, Zahn, Hall, Zahn). Gregory Stillman, Esq. and Scott L. Robertson, Esq. appeared on behalf of the

DATE	NO.	PROCEEDINGS
		pltf. Robert McFarland, Esq. and Jeffrey G. Randall, Esq. appeared on behalf of the defendants. Matter came before the court on motions filed by Mercexchange, LLC as follows: (197-1) to strike defts untimely expert report prior art and invalidity allegation; 2) (190-1) to compel discovery (8th); 3)(151-1) to compel discovery; 4)(139-1) for contempt. Court made rulings on the record; court to submit order. (nlyt) [Entry date 11/14/02]
11/15/02	218	POST-MARKMAN MOTION by eBay, Inc. for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 (FILED UNDER SEAL) (vwar) [Edit date 11/15/02] 0
11/15/02	219	MEMORANDUM by eBay, Inc. in support of [218-1] motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051, received (FILED UNDER SEAL) (vwar)
11/15/02	219	Declaration of Robert W. McFarland by eBay, Inc. [219-1] support memorandum (FILED UNDER SEAL) (vwar)
11/15/02	220	POST-MARKMAN MOTION by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265 (FILED UNDER SEAL) (vwar)
11/15/02	221	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of [220-1] motion for Summary Judgment of Noninfringement of

DATE	NO.	PROCEEDINGS
		Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265, received (FILED UNDER SEAL) (vwar)
11/15/02	221	Declaration of Robert W. McFarland by eBay, Inc., Half.com, Inc. [221-1] support memorandum (FILED UNDER SEAL) (vwar)
11/15/02	222	REPLY by Mercexchange, L.L.C. to response to [214-1] motion for Reconsideration of [212-1] order, received (FILED UNDER SEAL) (vwar) [Entry date 11/18/02]
11/18/02	223	ORDER directing parties to confer on supplemental responses Re: [190-1] motion (see order for specifics), directing parties to complete their conference on, or before 11/25/02, and to inform the court if additional direction is needed, entered and filed 11/18/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/18/02 [EOD Date: 11/19/02] (vwar) [Entry date 11/19/02]
11/18/02	224	ORDER directing plaintiff to notify defendants of any desired additional discovery pertaining to "inequitable conduct defense" by 12/10/02 (see order for specifics), entered and filed 11/18/02 (signed by Magistrate Judge James. E. Bradberry) Copies Mailed: 11/18/02 [EOD Date: 11/19/02] (vwar) [Entry date 11/19/02]

DATE	NO.	PROCEEDINGS
11/19/02	225	ORDER denying plaintiff's motion for production of e-mail messages (see order for specifics), entered 11/18/02, filed 11/19/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	226	ORDER denying [197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order (see order for specifics), entered 11/18/02, filed 11/19/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	227	ORDER directing eBay to answer Interrogatory 26, directing Half.com to answer Interrogatory 23, directing Returnbuy to answer Interrogatory 20, and directing Rubash to be redepose within 21 days from the date of this order (see order for specifics), entered 11/18/02, filed 11/19/02 signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	228	ORDER directing eBay to notify plaintiff if there are documents not produced pursuant to the subpoena duces tecum issued to Omidyar, directing eBay to produce all requested documents not yet produced, including corporate minutes (see order for specifics), entered 11/18/02, filed 11/19/02 (signed by Magistrate Judge James E.

DATE	NO.	PROCEEDINGS
		Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	229	TRANSCRIPT OF HEARING ON MOTIONS, for dates of 11/13/02, before USMJ James E. Bradberry, Horace P. Weiss, OCR (vwar)
12/3/02	230	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [209-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald *J.* Mossinghoff and for Protective Order, received (FILED UNDER SEAL) (vwar)
12/3/02	231	MOTION by Mercexchange, L.L.C.for Leave to File Summary Judgment Opposition in Excess of 30 Pages (vwar) [Entry date 12/04/02]
12/6/02	232	Response by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to [231-1] motion by Mercexchange, L.L.C.for Leave to File Summary Judgment Opposition in Excess of 30 Pages, received. (vwar)
12/11/02	233	REPLY by Mercexchange, L.L.C. to response to [231-1] motion for Leave to File Summary Judgment Opposition in Excess of 30 Pages, received. (vwar)
12/13/02	234	REPLY by Mercexchange, L.L.C. to response to [209-1] motion to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, received (FILED UNDER SEAL) (vwar) [Entry date 12/16/02]

DATE	NO.	PROCEEDINGS
12/13/02	235	REPLY by eBay, Inc., Half.com, Inc. to response to [220-1] motion for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265 by Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 12/16/02]
12/13/02	236	NOTICE of by eBay; Inc. of Submission of Reply Memorandum in Support of eBay's Post-Markman Motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 (vwar) [Entry date 12/16/02]
12/13/02	237	REPLY by eBay, Inc. to response to [218-1] motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 12/16/02]
12/16/02	238	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Consideration of Defendants' Motion for Expedited Relief in View of Woolston's New State Bar Complaint Against eBay's Expert, Who has a New Year's Eve Deadline to Respond (FILED UNDER SEAL) (vwar)
12/16/02	239	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Relief in View of Woolston's New State Bar Complaint Against eBay's Expert, Who has a New Year's Eve Deadline to Respond (FILED UNDER SEAL) (vwar)

DATE	NO.	PROCEEDINGS
12/20/02	240	ORDER granting [239-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Relief in View of Woolston's New State Bar Complaint Against eBay's Expert, Who has a New Year's Eve Deadline to Respond, denying [209-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, entered and filed 12/20/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 12/20/02 [EOD Date: 12/23/02] (vwar) [Entry date 12/23/02]
12/23/02	241	POST-MARKMAN MOTION by Mercexchange, L.L.C.for Partial Summary Judgment of Willful Patent Infringement by Defendants eBay, Inc. and Half.Com, Inc. of U.S. Patent No. 5,845,265 with proposed order attached (FILED UNDER SEAL) (vwar) [Entry date 12/24/02] [Edit date 12/24/02]
12/23/02	242	MEMORANDUM by Mercexchange, L.L.C. in support of [241-1] motion for Partial Summary Judgment of Willful Patent Infringement by Defendants eBay, Inc. and Half.Com, Inc. of U.S. Patent No. 5,845, 265, received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02] [Edit date 12/24/02]
12/23/02	242	STATEMENT OF UNDISPUTED FACTS Re: [242-1] memorandum in support by plaintiff Mercexchange, L.L.C., received

DATE	NO.	PROCEEDINGS
		(FILED UNDER. SEAL) (vwar) [Entry date 12/24/02]
12/23/02	242	Declaration of Brian M. Buroker by Mercexchange, L.L.C. [242-1] support memo randum by Mercexchange, L.L.C., (Two Redwells) received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02] [Edit date 12/24/02]
12/23/02	242	Declaration of Alfred C. Weaver, Ph.D. by Mercexchange, L.L.C. [242-1] support memorandum, received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02]
12/23/02	242	Declaration of Michael P.F. Phelps by Mercexchange, L.L.C. [242-1] support memorandum, received (Two Redwells) (FILED UNDER SEAL) (vwar) [Entry date 12/24/02]
12/23/02	242	Declaration of Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [242-1] support memorandum, received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02]
12/27/02	243	MOTION by Mercexchange, L.L.C. to Compel, and by Mercexchange, L.L.C. Resume Depositions of Mr. Pierre Omidyar and John Monahan, Jr., with proposed order attached (vwar) [Entry date 12/30/02] [Edit date 12/30/02]
12/27/02	244	MEMORANDUM by Mercexchange, L.L.C. in support of [243-1] motion by Mercexchange, L.L.C. to Compel, [243-2] motion by Mercexchange, L.L.C. Resume

DATE	NO.	PROCEEDINGS
		Depositions of Mr. Pierre Omidyar and John Monahan, Jr., received (FILED UNDER SEAL) (vwar) [Entry date 12/30/02]
1/7/03	245	NOTICE of Appearance by Kermit A. Rosenberg, Esq. as counsel for ReturnBuy, Inc. (vwar) [Entry date 01/08/03]
1/8/03	246	CONSENT MOTION by Returnbuy, Inc. to Substitute Attorney (vwar) [Entry date 01/10/03]
1/9/03	247	ORDER granting [246-1] motion by Returnbuy, Inc. to Substitute Attorney terminated attorney Allan Madis Soobert for Returnbuy, Inc. Added Kermit A. Rosenberg, entered and filed 1/9/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 1/10/03 [EOD Date: 1/10/03] (vwar) [Entry date 01/10/03]
1/10/03	248	MOTION by Mercexchange, L.L.C. for Entry of Proposed Second Modified Scheduling Order (Proposed Scheduling Order attached) (vwar) [Entry date 01/13/03]
1/10/03	249	MEMORANDUM by Mercexchange, L.L.C. in support of [248-1] motion for Entry of Proposed Second Modified Scheduling Order, received (vwar) [Entry date 01/13/03]
1/13/03	250	ORDER and OPINION denying [214-1] motion by Mercexchange, L.L.C. for Reconsideration of [212-1] order, entered and filed 1/13/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 1/13/03 [EOD Date: 1/13/03] (vwar)

DATE	NO.	PROCEEDINGS
1/14/03	251	MOTION by eBay, Inc. to Enforce Judge Friedman's September 19 and November 22 Orders (FILED UNDER SEAL) (vwar) [Entry date 01/16/03]
1/14/03	251	MEMORANDUM by eBay, Inc. in opposition to [243-2] motion by Mercexchange, L.L.C. Resume Depositions of Mr. Pierre Omidyar and John Monahan, Jr., received (FILED UNDER SEAL) (vwar) [Entry date 01/16/03]
1/14/03	251	Declaration by eBay, Inc. [251-1] opposition memorandum by eBay, Inc., [251-1] motion by eBay, Inc. to Enforce Judge Friedman's September 19 and November 22 Orders by eBay, Inc. (FILED UNDER SEAL) (vwar) [Entry date 01/16/03]
1/16/03	252	MOTION with Memorandum in Support by Mercexchange, L.L.C. by Mercexchange, L.L.C. Pursuant to" Rule 37 to Bar Defendants from Presenting Certain Claims, Defenses, and Evidence at Trial (and Supporting Memorandum) (vwar)
		* * * *
1/30/03	264	Declaration of Robert W. McFarland with CD-ROM Re: [264-1] response reply by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 01/31/03]
1/31/03	265	REPLY by eBay, Inc., Half.com, Inc. to response to [253-1] motion by eBay, Inc. to Strike [242-1] declarations of Mr. Woolston, Mr. Buroker, Dr. Weaver ad Dr. Palmer by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 02/03/03]

DATE	NO.	PROCEEDINGS
2/3/03	266	MEMORANDUM by eBay, Inc. in opposition to [257-1] motion by Mercexchange, L.L.C. for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21,2002 and January 13, 2003, received (vwar) [Entry date 02/04/03]
2/3/03	267	MEMORANDUM by Mercexchange, L.L.C. in opposition to [256-1] cross motion for Entry of Scheduling Order by Half.com, Inc., eBay, Inc., received (vwar) [Entry date 02/04/03]
2/3/03	268	MEMORANDUM by Mercexchange, L.L.C. in opposition to [255-1] motion by Half.com, Inc., eBay, Inc. to Strike Extraneous Statements in MercExchange and ReturnBuy's Proposed Consent Order and Judgment, received (FILED UNDER SEAL) (vwar) [Entry date 02/04/03]
2/6/03	269	REPLY by eBay, Inc., Half.com, Inc. to response to [256-1] cross motion for Entry of Scheduling Order, received (vwar) [Entry date 02/10/03]
2/6/03	270	REPLY by eBay, Inc., Half.com, Inc. to response to [255-1] motion to Strike Extraneous Statements in MercExchange and Return-Buy's Proposed Consent Order and Judgment, received (vwar) [Entry date 02/10/03]
2/6/03	270	Declaration of Robert W. McFarland Re: [270-1] response reply by Half.com, Inc., eBay, Inc. (vwar) [Entry date 02/10/03]

DATE	NO.	PROCEEDINGS
2/7/03	271	REPLY by Mercexchange, L.L.C. to response to [257-1] motion for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003, received (vwar) [Entry date 02/10/03]
2/13/03	272	MOTION by eBay, Inc. for Leave to File Objections to MercExchange's Request to Reconsider the Markman Ruling, Included in MercExchange's Feb. 6, 2003 "Reply") (vwar)
2/13/03	273	OBJECTION by defendant eBay, Inc. to [271-1] response reply by Mercexchange, L.L.C. (vwar)
2/14/03	274	ORDER granting [272-1] motion by eBay, Inc. for Leave to File Objections to MercExchange's Request to Reconsider the Markman Ruling, Included in Merc-Exchange's Feb. 6, 2003 "Reply"), denying [257-1] motion by Mercexchange, L.L.C.for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003, denying [241-1] motion by Mercexchange, L.L.C.for Partial Summary Judgment of Willful Patent Infringement by Defendants eBay, Inc. and Half.Com, Inc. of U.S. Patent No. 5,845,265, granting [231-1] motion by Mercexchange, L.L.C.for Leave to File Summary Judgment Opposition in Excess of 30 Pages and ordering plaintiff's response and defendant's reply FILED, granting in

DATE	NO.	PROCEEDINGS
		part, denying in part [218-1] motion by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265, denying [220-1] motion by eBay, Inc. for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051, entered and filed 2/14/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 2/14/03 [EOD Date: 2/19/03] (vwar) [Entry date 02/19/03]
2/14/03	275	MEMORANDUM by Mercexchange, L.L.C. in opposition to [218-1] motion by eBay, Inc. for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051, received (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]
2/14/03	275	Statement of Controverted Facts (and Attached Exhibits) by plaintiff Mercexchange, L.L.C. [275-1] opposition memorandum (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]
2/14/03	276	MEMORANDUM by Mercexchange, L.L.C. in opposition to [220-1] motion by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265 by Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]

DATE	NO.	PROCEEDINGS
2/14/03	276	Statement of Controverted Facts (and Attached Exhibits) by plaintiff Mercexchange, L.L.C. [276-1] opposition memorandum (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]
2/26/03	277	OPINION advising that the court does not believe that it is appropriate to strike the agreed-upon language of the proposed Consent Judgment and Order; however the court sees no reason why defendants' suggested sentence cannot be incorporated into the Order; therefore the court will separately enter a Judgment and Order with the addition of defendants' suggested sentence, entered and filed 2/26/03 signed by Judge Jerome B. Friedman) Copies Mailed: 2/27/03 [EOD Date: 2/27/03] (vwar) [Entry date 02/27/03] [Edit date 02/27/03]
2/26/03	278	JUDGMENT and ORDER in favor of MercExchange, LLC against ReturnBuy as outlined by agreement; enjoining ReturnBuy from infringing claims outlined, by agreement; this injunction is subject to the separate License Agreement and Settlement Agreement entered into by and between MercExchange and ReturnBuy; nothing in this Order shall be construed as affecting claims being litigated between eBay, Half.com and MercExchange in this case (see Judgment for specifics), entered and filed 2/26/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 2/27/03 [EOD DATE: 2/27/03] (vwar) [Entry date 02/27/03]

DATE	NO.	PROCEEDINGS
2/27/03	279	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of Post-Markman Motion for Summary Judgment of Noninfringement of Claims 1-9 and 16-41 of U.S. Patent No. 6,085,176, received (Motion not yet filed) (FILED UNDER SEAL) (vwar) [Entry date 02/28/03] [Edit date 02/28/03]
2/28/03	280	POST-MARKMAN MOTION by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 1-9 and 16-41 of U.S. Patent No. 6,085,176 (FILED UNDER SEAL) (vwar) [Entry date 03/03/03]
3/3/03	281	EXPEDITED MOTION by Half.com, Inc., eBay, Inc. to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings (FILED UNDER SEAL) (vwar)
3/3/03	282	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of [281-1] motion to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings, received (FILED UNDER SEAL) (vwar)
3/3/03	283	MOTION by Half.com, Inc., eBay, Inc. for Expedited Consideration of eBay and Half.Com's Expedited Motion to Enforce

DATE	NO.	PROCEEDINGS
		Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings (FILED UNDER SEAL) (vwar)
3/3/03	284	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of [283-1] motion for Expedited Consideration of eBay and Half.Com's Expedited Motion to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to and Markman Proceedings, received (FILED UNDER SEAL) (vwar)
3/5/03	285	REPLY by eBay, Inc., Half.com, Inc. to response to [283-1] motion for Expedited Consideration of eBay and Half.Com's Expedited Motion to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to and Markman Proceedings by Half.com, Inc., eBay, Inc., received. (vwar)
3/5/03	285	Declaration of Steven Zahn by eBay, Inc., Half.com, Inc. [285-1] response reply by Half.com, Inc., eBay, Inc. (vwar)
3/11/03	286	MEMORANDUM by Mercexchange, L.L.C. in opposition to [281-1] motion by Half.com, Inc., eBay, Inc. to Enforce Judge

DATE	NO.	PROCEEDINGS
		Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings, received. (UNDER SEAL) (ariv)
		* * * *
4/16/03	399	Expedited APPEAL and OBJECTION by defendant eBay, Inc., to Judge Bradberry's Partial Denial of defendant Half.com, Inc. [300-1] motion in limine No. 1 - Motion to Exclude Evidence of Insolvent Return-Buy's "Confession" and License/Settlement Agreement with MercExchange (FILED UNDER SEAL) (vwar)
4/16/03	400	REPLY by eBay, Inc., Half.com, Inc. to response to [344-1] motion by Half.com, Inc., eBay, Inc. in limine No. 16: Motion to Exclude Certain Testimony of Larry W. Evans Regarding Damages, received (FILED UNDER SEAL) (vwar)
4/17/03	401	ORDER denying motion by Half.com, Inc., eBay, Inc. in limine No. 13: Motion to Exclude Richard B. Troxel's Testimony, denying motion by eBay, Inc. in limine No. 12: Motion to Preclude MercExchange from Offering any Evidence of Damages from eBay's Alleged Indirect Infringement of U.S. Patent No. 6,085,176, denying motion by Half.com, Inc., eBay, Inc. in limine No. 11: Motion to Exclude Expert Testimony of Alfred C. Weaver, Ph.D. Regarding "Trans-

DATE	NO.	PROCEEDINGS
		fer of Ownership", denying motion by Half.com, Inc., eBay, Inc. in limine No. 10: Motion to Exclude Expert Testimony of Ophir Frieder, Ph.D. Regarding Infringement, denying motion by defendants in limine No. 9: Motion to Exclude Regarding the New Alleged "Direct" Infringers, denying motion by plaintiff in limine to Evidence or Argument of Non-Infringement Based upon Additional Elements and Improvements of the Accused denying motion by plaintiff in limine to Exclude Evidence or Argument Regarding Non-Infringement or Claim Construction Based Upon Comparisons between Defendants' Accused Systems and the Commercial Embodiments of MercExchange or its Licensees, granting motion plaintiff in limine to Exclude Evidence or Argument Concerning MercExchange's Fee Agreements with Counsel, denying motion by plaintiff in limine to Exclude Evidence or Argument Concerning U.S. Patent No. 6,202,051, granting motion by defendants in limine No. 8: Motion to Exclude of Preliminary Department of Justice Investigation into eBay, granting motion by defendants in limine No. 7: Motion to Exclude any Testimony, Evidence or Argument Regarding Merc Exchange's New "Entire Market Value" Theory, mooting [310-1] motion by defendants in limine No. 6: Motion to Exclude any Testimony, Argument, or Evidence that the '265 Patent Claims Auctions or Any-

DATE	NO.	PROCEEDINGS

thing Beyond Fixed-Price Sales, Contrary to MercExchange's Previous Concessions, granting motion by defendants in limine No. 5: Motion to Exclude False Testimony of Alleged Offer to Purchase the Merc-Exchange Patent Portfolio, denying motion defendants in limine No. 4: Motion to Exclude any Evidence of, or Reliance on, the MercExchange/Goto Settlement, denying motion by defendants in limine No. 3: Motion to Exclude Hearsay Evidence that AutoTrader, An eBay Competitor, "Respects" the MercExchange Patents, denying motion by defendants in limine No. 2: Motion to Exclude Evidence of Merc Exchange's License "Agreements" with Aden Enterprises, Leftbid.com, Navlet.com as Proof of Validity and "Damages", denying motion defendants in No. - Motion to Exclude Evidence of Insolvent Return-Buy's "Confession" and License/Settlement Agreement with MercExchange, granting motion by plaintiff in limine to Exclude Evidence or Argument Regarding Defendants' Undisclosed Invalidity Theories Based Upon Alleged Prior Art References Contained in Defendants' Section 282 Disclosures, denying motion by plaintiff for Protective Order to Preclude Defendants' Late Designation of New Expert Consultants, granting in part, denying in part motion by plaintiff in limine to Exclude Testimony from Defendant eBay's '051 Patent Expert Witnesses, denying motion by

DATE	NO.	PROCEEDINGS
		eBay to Strike [242-1] declarations of Mr. Woolston, Mr. Buroker, Dr. Weaver ad Dr. Palmer, denying motion by eBay Motion to Enforce 9, 2002 Order and Permit Discovery Under Fed. R.Civ. P. 56(F), denying motion by plaintiff Pursuant to Rule 37 to Bar Defendants from Presenting Certain Claims, Defenses, and Evidence at Trial (and Supporting Memorandum), mooting motion by plaintiff to Resume Depositions of Mr. Pierre Omidyar and John Monahan, Jr. (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 4/17/03 [EOD Date: 4/17/03] (vwar)
4/17/03	402	TRANSCRIPT of FINAL PRETRIAL CONFERENCE for dates of 4/10/03 - Vol. I Pages 1-177 before USMJ Bradberry, Susanne V. Ash, OCR (vwar)
4/18/03	403	MOTION with Memorandum in Support by eBay, Inc., Half.com, Inc. by Half.com, Inc., eBay, Inc. for Leave to Bring Laptop Computers and Display Equipment for Use During the April 23, 2003 Trial (vwar)
4/18/03	404	OBJECTION by defendant eBay, Inc., defendant Half.com, Inc. to [0-1] instructions jury by Mercexchange, L.L.C. (vwar)
4/18/03	405	FINAL PRETRIAL CONFERENCE TRANSCRIPT for dates of 4/11/03, Vol. II Pages 178-462, before USMJ Bradberry, Susanne Ash, OCR (vwar)

DATE	NO.	PROCEEDINGS
4/18/03	406	OBJECTION by plaintiff Mercexchange, L.L.C. Regarding Magistrate Judge Bradberry's Partial Denial of MercExchange's Motion in Limine to Exclude Evidence or Argument Concerning U.S. Patent No. 6,202,051 (vwar)
4/18/03	407	MEMORANDUM by Mercexchange, L.L.C. in opposition to [399-1] objection by Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (vwar)
4/21/03	408	FINAL PRETRIAL CONFERENCE TRANSCRIPT for dates of 4/12/03; Vol. III Pages 463-637, before *USMJ* Bradberry, Susanne Ash, OCR (vwar)
		* * * *
6/12/03	561	MOTION by Mercexchange, L.L.C. for entry of a permanent injunction order (vwar)
6/12/03	562	MEMORANDUM by Mercexchange, L.L.C. in support of [561-1] motion by Mercexchange, L.L.C. for entry of a permanent injunction order, received. (vwar)
		* * * *
6/12/03	574	MEMORANDUM by Mercexchange, L.L.C. in support of (573-1] motion for Enhanced Damages under 35 U.S.C. *Sec.* 284 and Attorney Fees under 35 U.S.C. Sec. 285, received (FILED UNDER SEAL) (vwar) (Entry date 06/13/03]
		* * * *

DATE	NO.	PROCEEDINGS
6/23/03	585	MEMORANDUM by eBay, Inc., Half.com, Inc. in opposition to [561-1] motion by Mercexchange, L.L.C. for entry of a permanent injunction order, received. (vwar) (Entry date 08/26/031
		* * * *
6/30/03	594	REPLY by Mercexchange, L.L.C. to response to [573-1] motion for Enhanced Damages under 35 U.S.C. Sec. 284 and Attorney Fees under 35 U.S.C. Sec. 285, received. (vwar) [Entry date 07/01/03]
6/30/03	595	REPLY by Mercexchange, L.L.C. to response to [529-1] motion for Judgment as a Matter of Law (vwar) [Entry date 07/01/03]
6/30/03	596	REPLY by Mercexchange, L.L.C. to response to [569-1] motion for Prejudgment and Postjudgment interest, received. (vwar) [Entry date 07/01/03]
6/30/03	597	REPLY by Mercexchange, L.L.C. to response to [563-1] motion to Enforce Judge Friedman's Injunction Order of February 26, 2003 and for Order to Show Cause why Defendant eBay, Inc. should not be held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003 (Exhibit B FILED UNDER SEAL), received. (vwar) [Entry date 07/01/03]
8/7/03	598	ORDER and OPINION entering judgment for the plaintiff in the amount of $29.5 million; consisting of $10.5 million for

DATE	NO.	PROCEEDINGS
		eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent; this judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and post-judgment interest at the standard rate; and denying [565-1] motion by Mercexchange, L.L.C. for Judgment as a Matter of Law, denying [563-1] motion by Mercexchange, L.L.C. to Enforce Judge Friedman's Injunction Order of February 26, 2003 and for Order to Show Cause why Defendant eBay, Inc. should not be held in Contempt for Facilitating Violations of Judge Friedman's Injunction of February 26, 2003, denying [561-1] motion by Mercexchange, L.L.C. for entry of a permanent injunction order, granting in part, denying in part [559-1] motion by Half.com, Inc., eBay, Inc. to Strike Testimony of Plaintiff's Damages Experts, granting in part, denying in part [559-2] motion by Half.com, Inc., eBay, Inc. for New Trial, granting in part, denying in part (559-3] motion by Inc., eBay, Inc. for Judgment as a Matter of Law, denying [557-1] motion by Half.com, Inc., eBay, Inc. for Judgment a Matter of Law, denying [557-2] motion by Half.com, Inc., eBay, Inc. for New Trial on the '265 Patent, denying motion by Half.com, Inc. for Judgment as a Matter of Law, denying [555-

DATE	NO.	PROCEEDINGS
		2] motion by Half.com,. Inc. for New Trial on the '176 Patent, denying [573-1] motion by Mercexchange, L.L.C. for Enhanced Damages under 35 U.S.C. Sec. 284 and Attorney Fees under 35 U.S.C. Sec. 285, granting [569-1] motion by Mercexchange, L.L.C. for Prejudgment and Postjudgment interest, granting in part, denying in part [567-1] motion by Mercexchange, L.L.C. for entry of final judgment, deferring plaintiff's motion for Post-Verdict and Postjudgment Accounting pending appeal, entered and filed 8/6/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 8/6/03 [SOD Date: 8/7/03] (vwar)
8/7/03	599	JUDGMENT by jury verdict and on decision by court that judgment is entered for the plaintiff in the amount of $29.5 million; this consists of $10.5 million for eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent; this judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and post-judgment interest at the standard rate; and that Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 patent is DENIED; eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265

DATE	NO.	PROCEEDINGS
		Patent is DENIED; eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law is DENIED in part and GRANTED in part; the plaintiff's Motion for Entry of a Permanent Injunction Order is DENIED; the plaintiff's Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why defendant e-Bay, Inc. should not be held in Contempt for facilitating Renewed Motion for Judgment as a Matter of Law is DENIED; the plaintiff's Motion for Prejudgment and Postjudgment interest is GRANTED, with the exception of the interest rate used; the plaintiff's Motion for Post-Verdict and Postjudgment Account is DEFERRED pending appeal; the plaintiff's Motion for Enhanced Damages under 35 USC Sec. 284 and Attorney Fees under 35 USC Sec. 285 is DENIED, entered by the Clerk 8/6/03, filed 8/7/03, o.b., Copies Mailed: 8/7/03 [EOD DATE: 8/7/03] (vwar)
8/7/03	—	Case closed (vwar)
8/7/03	—	Permanent Record (vwar)
8/19/03	600	ORDER stipulating and agreeing that the judgment against eBay and against Half.com should be stayed pending appeal without a supersedeas bond and that the requirement that eBay and Half.com post and obtain approval of a supersedeas bond pending appeal and any cost bond are

DATE	NO.	PROCEEDINGS
		waived; entered 8/18/03, filed 8/19/03 (signed by Judge Jerome B. Friedman Copies Mailed: 8/19/03 [EOD Date: 8/19/03] (vwar)
8/20/03	601	NOTICE OF APPEAL by eBay, Inc., Half.com, Inc.. FILING FEE $ 105.00 RECEIPT # 40277 (jcow)
8/20/03	—	Copy of Notice of Appeal, Order and Opinion, Judgment and docket sheet to USCA for the Federal Circuit: copy of notice of appeal to defendants/appellants re: [601-1] appeal by Half.com, Inc., eBay, Inc.; copy of notice of appeal to counsel of record (jcow)
9/2/03	602	Copy of transcript purchase order for hearing on 11/20/01 and 4/3/02 (jcow) [Entry date 09/03/03]
9/2/03	603	Copy of transcript purchase order for hearing on 7/1/02 (jcow) [Entry date 09/03/03]
9/3/03	604	NOTICE OF APPEAL by Mercexchange, L.L.C.. FILING FEE $ 150.00 (jcow)

* * * *

U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT

03-1600, 03-1616

MERCEXCHANGE, L.L.C.,
Appellant,

v.

EBAY, INC., *et al.*,
Defendant-Appellee.

RELEVANT DOCKET ENTRIES

DATE	PROCEEDINGS	
8/25/ 203	Notice of Appeal Received:	[03-1600]
9/8/2003	Notice of Appeal Received:	[03-1616]
9/8/2003	Notice of Appeal Received:	[03-1600]
9/10/2003	Notice of Appeal Received:	[03-1616]

* * * *

1/7/2004 CORRECTED BRIEF OF APPELLANTS BY eBAY, INC. and HALF.COM, INC. (APPELLANTS). SERVED BY MAIL ON 1/6/2004. FILED ON 1/7/2004. (NON-CONFIDENTIAL)

* * * *

4/21/2004 JOINT REPLY/OPPOSITION BRIEF FOR DEFENDANTS-APPELLANTS EBAY INC. AND HALF.COM, INC. BY EBAY, INC. AND HALF.COM, INC. (APPELLANTS). SERVED BY MAIL ON 4/21/2004. FILED ON 4/21/2004. (NON-CONFIDENTIAL)

DATE	PROCEEDINGS
	* * * *
3/16/2005	Disposition: AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED; by PANEL
3/16/2005	Mandated on
	* * * *
4/26/2005	ACTION: Entry 43: [REQUEST FOR JUDICIAL NOTICE OF PTO OFFICE ACTION IN EX PARTE REEXAMINATION OF US PATENT NO. 5,845,265] DENIED.
	* * * *
5/11/2005	ACTION: Entry 46: [MOTION TO STAY COURT'S MANDATE PENDING FILING A PETITION FOR WRIT OF CERTIORARI IN THE SUPREME COURT] GRANTED.
	* * * *
1/19/2006	ACTION: [ORDER CONTINUING STAY OF MANDATE UNTIL THE SUPREME COURT'S FINAL DISPOSITION.]

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

JURY TRIAL DEMANDED

FIRST AMENDED COMPLAINT FOR PATENT INFRINGEMENT

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MercExchange, L.L.C.

FIRST AMENDED COMPLAINT

Plaintiff, MercExchange, L.L.C. ("MercExhange"), hereby complains and alleges against defendants eBay, Inc. ("eBay"), Half.com, Inc. ("Half.com"), and ReturnBuy, Inc., ("ReturnBuy") (collectively, "the defendants") as follows:

Statement of the Parties, Jurisdiction, and Venue

1. This is an action for patent infringement arising under the patent laws of the United States, 35 U.S.C. §§ 271, *et seq.* This Court has exclusive jurisdiction over the subject matter of this action under 28 U.S.C. §§ 1331 and 1338(a) for infringement of United States Patent No. 6,202,051 ("the '051 Patent") entitled "Facilitating Internet Commerce Through Internetworked Auctions" (Exhibit A, attached hereto), United States Patent No. 6,085,176 ("the '176 Patent") entitled "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items" (Exhibit B, attached hereto), and United States Patent No. 5,845,265 ("the '265 Patent") entitled "Consignment Nodes" (Exhibit C, attached hereto) (collectively, "the patents in suit").

2. Plaintiff MercExchange is a Virginia limited liability company, with its principal place of business at 9124 Poto-

mac Ridge Road, Great Falls, Virginia, 22066, in the judicial district of the Eastern District of Virginia ("the Eastern District of Virginia").

3. The inventor and assignor of the patents in suit, and the Managing Member of MercExchange, Thomas G. Woolston, is a resident of Great Falls, Virginia, in the Eastern District of Virginia.

4. This Court previously presided over another patent infringement action brought by MercExchange involving one of the patents in suit, the '176 Patent, in a case styled MercExchange GoTo.com, Civ. Action No. 2:00cv826, Eastern District of Virginia, Norfolk Division.

5. Defendant eBay is a Delaware corporation with its principal place of business at 2145 Hamilton Avenue, San Jose, California.

6. Defendant Half.com is a Pennsylvania corporation with its principal place of business at 500 South Gravers Road, Plymouth Meeting, Pennsylvania.

7. Upon information and belief, defendant ReturnBuy is a Delaware corporation. ReturnBuy maintains its headquarters and its principal place of business at 21641 Beaumeade Circle, Suite 319, Ashburn, Virginia, in the Eastern District of Virginia.

8. The defendants regularly transact business in this judicial district and division by, among other things, offering their services via the Internet to customers, advertisers, business affiliates and partners located in this judicial district and division. In addition, each of the defendants have committed acts of infringement, contributory infringement, and/or inducement of infringement, of one or more of the claims of one or more of the patents in suit in this judicial district and division.

9. Venue is proper in this district and division pursuant to 28 U.S.C. § 1400(b) and 28 U.S.C. §§ 1391(b) and (c), as each of the defendants resides in and is subject to personal jurisdiction in this judicial district and division, and the infringing activity has occurred and continues to occur in this district and division.

10. Further, venue is convenient in this district because, among other things, this case relates to *MercExchange v. GoTo.com, Inc.*, Civ. Action No. 2:00cv826, which was previously heard in this Court. Both cases relate to patent infringement claims by MercExchange under the '176 patent, and the other patents in suit in this case are related to the '176 patent.

The Defendants' Substantial Contacts With The Commonwealth Of Virginia eBay's Contacts With Virginia

11. eBay owns and operates a web site at the uniform resource locator ("URL") www.eBay.com. The web site provides methods and apparatuses which, inter alia, facilitate Internet auctions, and which are accused in this action of infringing one or more of the claims of one or more of the patents in suit. Through the use of its web site and related advertising and promotion, eBay operates an online forum through which buyers and sellers of items can participate in Internet auctions. Many of these buyers and sellers, as well as eBay's other customers, advertisers, and affiliates, are located in the Eastern District of Virginia.

12. eBay's web site is an interactive web site in that eBay intends for persons located in the Eastern District of Virginia and elsewhere to access the web site in order to conduct Internet auctions, and to transact business with eBay, its advertisers and business affiliates, and other users of the Internet, to search for goods and services being auctioned or sold, and ultimately to consummate transactions involving those goods and services. eBay states that it is "the leading online

marketplace for the sale of goods and services by a diverse community of individuals and businesses. Today, the eBay community includes 29.7 million registered users, and is the most popular shopping site on the Internet when measured by total user minutes according to Media Metrix." Exhibit D.

13. eBay actively promotes and advertises its web site and associated auction services in order to encourage their use by consumers, advertisers, and buyers and sellers of goods and services located in the Eastern District of Virginia, as well as other jurisdictions. eBay states that its "mission is to help practically anyone trade practically anything on earth." *Id.* Through its accused methods and apparatuses, eBay enables trade on a local, national and international basis. *Id*

14. eBay's methods and apparatuses are in fact used in the Eastern District of Virginia by buyers ,and sellers of goods that are bought and sold through Internet auctions and sales.

15. eBay's web site enables a customer (including customers located in the Eastern District of Virginia) to access the site and use its methods and apparatuses to search literally millions of items listed for sale or auction eBay states that "[o]n any given day, there are millions of items listed on eBay across thousands of categories." *Id.*

16. Further, eBay purposefully and persistently engages in business in the Eastern District of Virginia. eBay operates as a web host and promoter for numerous Virginia-based companies through, among other things, its eBay Stores program. eBay states that its eBay Stores program "expands the marketplace for sellers by allowing them to create customized shopping destinations to merchandise their items on eBay." *Id.*

17. eBay provides its eBay Stores program for such Eastern District of Virginia-based companies as Marie-Therese Wood Antique Prints, located in Alexandria, Virginia. Copies of printed pages from eBay's web site for this seller of

goods are attached as Exhibit E hereto. In addition, defendant ReturnBuy, a company whose headquarters are located in the Eastern District of Virginia in Ashburn, Virginia, has an "eBay Store" at which it lists for auction thousands of items. Exhibit F.

18. Through eBay, users of the Internet are able to search for, identify and purchase items being auctioned by such merchants from the Eastern District of Virginia, initiate communications with these merchants to their place of business in the Eastern District of Virginia, and provide payment information to these merchants. eBay charges these merchants a commission for the items being auctioned or sold.

19. In addition, individual buyers and sellers located in the Eastern District of Virginia use eBay's auction services, methods and apparatuses, which are alleged to infringe one or more claims of one or more of the patents in suit. For example, a seller of photographs, located in Northern Virginia in the Eastern District of Virginia, has listed for auction or sale numerous different items at the eBay web site. The eBay site operates such that a consumer searching for auctions of photographs at www.eBay.com is directed to this auction seller located in the Eastern District of Virginia. (*See* Ex. G). Likewise, a Herndon, Virginia resident has listed for auction an autographed Redskins jersey. Exhibit H.

20. eBay further directs its activities toward the Eastern District of Virginia through its "Go Local" or "eBay Local Trading" program. eBay promotes some sixty different of these "local web sites," two of which are "Richmond" and "Norfolk/Virginia Beach," both of which are located in the Eastern District of Virginia. *See* Exhibit I. eBay also provides a "local web site" for the Baltimore/Washington, D.C. area, which directs consumers to goods and services being auctioned by sellers in Northern Virginia, Washington, D.C., and suburban Maryland and Baltimore. Exhibit J. Through these localized eBay sites, prospective buyers of goods presented

for sale or auction through eBay may focus their searches for goods for sale or auction within these local regions. eBay states that "[t]hese localized eBay sites allow users to easily find items located near them and browse through items of local interest. eBay's local sites deliver a distinctive regional flavor, while giving users the convenience to shop for more difficult-to-ship items such as automobiles, furniture or appliances." Exhibit D.

21. Upon launching the local web site for eBay's community in Norfolk and Virginia Beach on or about November 10, 1999, eBay issued a press release stating, *inter alia*, "[b]ecause eBay's new Norfolk/Virginia Beach site connects local buyers and sellers, it also gives holiday shoppers the opportunity to pick up that last minute gift themselves—rather than wait on shipment . . . [w]ith the new Norfolk/Virginia Beach web site, eBay community members can easily find items located near them and browse through items of local interest, such as collectibles from Colonial Williamsburg, tobacco memorabilia and rare sailing and fishing merchandise. The site also provides a more convenient venue for trading items that are difficult to ship long distances, due to either their size or fragile nature. The Norfolk/Virginia Beach site is completely integrated into eBay's worldwide listings, so sellers can list locally in the knowledge everyone on eBay can see the item." Exhibit K. eBay's press release went on to provide specific examples of goods for sale from sellers in the Norfolk/Virginia Beach area. *Id.*

22. Similarly, when eBay launched its local web site for the Baltimore/Washington, D.C. area on November 10, 1999, it issued a similar press release stating, "[w]ith the new Baltimore /Washington, D.C. web site, eBay community members can easily find items located near them and browse through items of local interest, such as memorabilia from popular regional sports teams like the Ravens and Redskins, presiden

tial and political collectibles, and antique postcards celebrating Baltimore's proud industrial heritage." Exhibit K.

23. There have been at least thousands of buyers and sellers of goods located in the Eastern District of Virginia that have accessed and/or used the www.ebay.com web site, and its associated methods and apparatuses that are alleged to infringe one or more claims of one or more of the patents in suit.

24. Moreover, eBay conducts substantial and continuous business activities in this district and division by contracting with business partners such as America Online ("AOL"), a company based in Dulles, Virginia, in the Eastern District of Virginia. An August 14, 2001, press release from eBay stated that eBay and AOL have "broadened [their] partnership," and extended the two companies' "longtime successful relationship." Exhibit L. The press release announced a new three-year marketing alliance between eBay and AOL, and stated, in pertinent part, that "[t]he companies, which have had a successful relationship since 1997, will collaborate closely on developing marketing solutions for eBay across a range of AOL Time Warner's online, print and television properties." *Id.* The release also stated that AOL will "continue to serve as eBay's exclusive third-party advertising sales force, representing a significant portion of eBay's standard online advertising inventory." *Id.*

25. Accordingly, eBay has purposefully availed itself of the privilege of conducting business in the Commonwealth of Virginia. Among other things, eBay's services emphasize the lack of geographic boundaries to commerce conducted via www.ebay.com. Thus, eBay has derived and will continue to derive substantial revenues from its infringing business activities in the Eastern District of Virginia as described above.

Half.com's Contacts With Virginia

26. Upon information and belief, defendant Half.com is a wholly-owned subsidiary of eBay. Both eBay and Half.com advertise and promote Half.com as being "an eBay company," and persons searching for items to purchase at eBay's site are encouraged to search listings at Half.com, and vice versa. Half.com owns and operates a web site at the uniform resource locator ("URL") www.half.com. The web site provides methods and apparatuses that are accused in this action of infringing one or more claims of one or more of the patents in suit and which, *inter alia*, facilitate Internet sales of certain types of goods (*e.g.*, books, music compact discs, DVD's and videos, and video games), at a set price established by the seller. Through the use of its web site and related advertising and promotion, Half.com operates an online forum through which buyers and sellers of items can participate in Internet Sales of what are primarily second hand goods. Many of these buyers and sellers, as well as Half.com's other customers, advertisers, and affiliates, are located in the Eastern District of Virginia.

27. Half.com's web site is an interactive web site in that Half.com intends for persons located in the Eastern District of Virginia and elsewhere to access the web site in order to transact business with Half.com, its advertisers and business affiliates, and other users of the Internet, to search for goods being sold, and ultimately to consummate transactions involving those goods.

28. Half.com actively promotes and advertises its web site and associated services in order to encourage their use by consumers, advertisers, and buyers and sellers of goods, many of which are located in the Eastern District of Virginia, as well as other jurisdictions.

29. Half.com's methods, apparatuses and services are in fact used in the Eastern District of Virginia by buyers and

sellers/of goods bought and sold through the Half.com web site.

30. Half.com's web site enables a customer (including customers located in the Eastern District of Virginia) to access the site and use its methods and apparatuses to search thousands of listings for various goods for sale at set prices. Further, Half.com purposefully and persistently engages in business in the Eastern District of Virginia. Numerous persons located in the Eastern District of Virginia offer their goods for sale through Half.com.

31. Through Half.com, users of the Internet are able to search for, identify and purchase items being sold by sellers residing in the Eastern District of Virginia and provide payment information in order to consummate sales with these sellers.

32. Half.com also advertises through the eBay Norfolk/Virginia Beach and Baltimore/Washington, on, D.C. local web sites, in order to attract prospective buyers located in the Eastern District of Virginia to the Half.com web site. Exhibit M.

33. Upon information and belief, there have been at least thousands of buyers and sellers of goods located in the Eastern District of Virginia that have accessed and/or used the www.half.com web site, and its associated methods and apparatuses that are alleged to infringe one or more claims of one or more of the patents in suit.

34. Accordingly, Half.com has purposefully availed itself of the privilege of conducting business in the Commonwealth of Virginia. Among other things, Half.com's services emphasize the lack of geographic boundaries to commerce conducted via www.half.com. Thus, Half.com has derived and will continue to derive substantial revenues from the business activities in the Eastern District of Virginia as described above.

ReturnBuy.com's Contacts With Virginia

35. ReturnBuy maintains its corporate headquarters in Ashburn, Virginia, in the Eastern District of Virginia. ReturnBuy also maintains a processing center in West Columbia, South Carolina, and information technology offices in Charlottesville, Virginia.

36. ReturnBuy utilizes methods and apparatuses that are alleged to infringe one or more claims of one of the patents in suit in order to sell goods to consumers. ReturnBuy processes and individually sells products that have been consigned to them by retailers, and it uses eBay's accused methods and apparatuses as a channel for selling the goods to consumers. Consumers interested in purchasing such goods from ReturnBuy are directed from the ReturnBuy web site to the eBay web site, where over one thousand different items for sale by ReturnBuy are displayed in an eBay listing. Exhibit N. Tens of thousands of such items have been-auctioned or sold through the eBay web site. *Id.* ReturnBuy stated in its press released of April 9, 2001, that its "resale of returned products through eBay, for example, has enabled ReturnBuy to recoup three to five times more value for its clients than through traditional liquidation." Exhibit O.

37. On May 24, 2001, ReturnBuy announced that it had entered into a strategic alliance with eBay "to expand the quantity of merchandise available through the online trading community," and that it had "completed the integration with eBay's Application Program Interface (API) that allow[ed] the two companies to instantly exchange data through a fully secure and private communication hotline." Exhibit P. The press release further stated that "eBay selected ReturnBuy as one of its select purveyors of consumer electronics, computers, toys and sporting goods." *Id.*

38. ReturnBuy's web site is an interactive web site in that ReturnBuy intends for persons located in the Eastern District

of Virginia and elsewhere to access the web site and/or ReturnBuy's eBay listings in order to transact business with ReturnBuy, its advertisers and business affiliates, to search for goods being sold, and ultimately to consummate transactions involving those goods.

39. ReturnBuy actively promotes and advertises its web site and associated services in order to encourage their use by consumers, advertisers, and buyers and sellers of goods, all of which are located in the Eastern District of Virginia, as well as other jurisdictions.

40. ReturnBuy's methods, apparatuses and services are in fact used in the Eastern District of Virginia by buyers and sellers of goods bought and sold through the ReturnBuy and the eBay web sites.

41. ReturnBuy's web site enables a customer (including customers located in the Eastern District of Virginia) to access the site and use either ReturnBuy's or eBay's methods and apparatuses to search thousands of listings for various goods for sale or auction.

42. eBay has also invested millions of dollars in defendant ReturnBuy. A ReturnBuy press release dated May 24, 2001, stated that "eBay participated in ReturnBuy's $15 million second-round funding that was completed mid-March." Exhibit P. Another ReturnBuy press release dated April 9, 2001 stated, in pertinent part, "[s]everal prominent companies made strategic minority investments including eBay." Exhibit O.

43. Upon information and belief, there have been at least hundreds of buyers and sellers of goods located in the Eastern District of Virginia that have accessed and/or used the www.returnbuy.com web site, or ReturnBuy's eBay listings, and the associated methods and apparatuses that are alleged to infringe one or more claims of one or more of the patents in suit.

44. Accordingly, ReturnBuy has purposefully availed itself of the privilege of conducting business in the Commonwealth of Virginia. Among other things, and in addition to the presence of its headquarters in the Eastern. District of Virginia, ReturnBuy's services emphasize the lack of geographic boundaries to commerce conducted via www.returnbuy.com. Thus, ReturnBuy has derived and will continue to derive substantial revenues from its business activities in the Eastern District of Virginia as described above.

45. Thus, each of three defendants have actively engaged in business, and continue to engage in business, in the Eastern District of Virginia. Each of the three defendants have obtained substantial revenues through their ongoing business activities in the Eastern District of Virginia, and have purposefully availed themselves of the privileges of conducting business in the Eastern District of Virginia. Moreover, the methods, systems, and apparatuses used by each of the three defendants to conduct business in the Eastern District of Virginia are alleged to infringe one or more of the claims of one or more of the patents in suit, as set forth infra. Accordingly, jurisdiction is proper, and venue is proper, appropriate, and convenient in this forum.

COUNT ONE—INFRINGEMENT OF THE '051 PATENT

(eBay)

46. MercExchange incorporates by reference its allegations in Paragraphs 1-45 as if fully restated in this paragraph.

47. On March 13, 2001, the '051 Patent was duly and legally issued to the inventor, Thomas G. Woolston, for an invention pertaining inter alia, to a method and apparatus for facilitating internet commerce through intemetworked auctions.

48. Plaintiff MercExchange is the assignee of and the owner of all right, title and interest to the '051 Patent.

MercExchange has the legal right to enforce the patent, sue for infringement, and seek equitable relief and damages.

49. Defendant eBay has been and continues infringing one or more of the claims of the '051 Patent through at least the act of making, using, and/or selling Internet methods and apparatuses incorporating the patented inventions, and will continue to do so unless enjoined by this Court. eBay's wrongful conduct has caused MercExchange to suffer irreparable harm resulting from the loss of its lawful patent rights to exclude others from making, using, selling, offering to sell and importing the patented inventions.

50. MercExchange is entitled to recover damages adequate to compensate for the infringement.

COUNT TWO—INFRINGEMENT OF THE '176 PATENT

(eBay and Half.com)

51. MercExchange incorporates by reference its allegations in Paragraphs 1-50 as if fully restated in this paragraph.

52. On July 4, 2000, the '176 Patent was duly and legally issued to the inventor, Thomas G. Woolston, for an invention pertaining, *inter alia*, to a method and apparatus for using search agents to search a plurality of markets for items.

53. Plaintiff MercExchange is the assignee of and the owner of all right, title and interest to the '176 Patent. MercExchange has the legal right to enforce the patent, sue for infringement, and seek equitable relief and damages.

54. Defendants eBay and Half.com have been either directly infringing, contributing to infringement, and/or inducing others to infringe one or more of the claims of the '176 Patent, and continue to do so, through at least the act of making, using, and/or selling Internet methods and apparatuses incorporating the patented inventions, or inducing or contributing to such making, using, and/or selling of the patented inventions by others, and will continue to do so unless en-

joined by this Court. EBay and Half.com's wrongful conduct has caused MercExchange to suffer irreparable harm resulting from the loss of its lawful patent rights to exclude others from making, using, selling, offering to sell and importing the patented inventions.

55. MercExchange is entitled to recover damages adequate to compensate for the infringement.

COUNT THREE—INFRINGEMENT OF THE '265 PATENT

(All Defendants)

56. MercExchange incorporates by reference its allegations in Paragraphs 1-55 as if fully restated in this paragraph.

57. On December 1, 1998, the '265 Patent was duly and legally issued to the inventor, Thomas G. Woolston, for an invention pertaining to, inter alia, a method and apparatus for creating a computerized market for goods for sale or auction by use of a plurality of low cost posting terminals.

58. Plaintiff MercExchange is the assignee of and the owner of all right, title and interest to the '265 Patent. MercExchange has the legal right to enforce the patent, sue for infringement, and seek equitable relief and damages.

59. Defendants have been either directly infringing, contributing to infringement and/or inducing others to infringe one or more of the claims of the '265 Patent through at least the act of making, using, and/or selling Internet methods and apparatuses incorporating the patented inventions, or inducing or contributing to such making, using, and/or selling of the patented inventions by others, and will continue to do so unless enjoined by this Court. Defendants' wrongful conduct has caused MercExchange to suffer irreparable harm resulting from the loss of its lawful patent rights to exclude others from making, using, selling, offering to sell and importing the patented inventions.

60. MercExchange is entitled to recover damages adequate to compensate for the infringement.

COUNT FOUR—WILLFUL PATENT INFRINGEMENT

(eBay, Half.com, and ReturnBuy)

61. MercExchange incorporates by reference its allegations in Paragraphs 1-60 as if fully restated in this paragraph.

62. MercExchange previously informed eBay of the issued '265 Patent and the then-pending applications resulting in the '176 and '051 Patents, and the relevance of these patents and patent applications to eBay's ongoing business operations. eBay was made aware of these facts no later than June, 2000. The '265 Patent also was cited as a relevant reference in eBay's own Patent Cooperation Treaty ("PCT") International Patent No. WO 00/34899, International Application No. PCT/US99/29312, entitled "Integrated Auction For Remote Online Bidders And Live Participants At An Auction Site," thus further demonstrating, eBay's prior knowledge of the '265 Patent. eBay either is aware, or in the exercise of its duty to avoid infringing the intellectual property rights of others should be aware, that the '176 Patent and the '051 Patent have issued. Notwithstanding eBay's receipt of notice of the patents in suit, eBay continues its infringement. eBay's infringement has been willful, deliberate and with knowledge of MercExchange's rights under the patents in suit, and unless eBay is enjoined by this Court, such acts of willful infringement by eBay will continue. Therefore, MercExchange is without adequate remedy at law.

63. Upon information and belief, Half.com also had prior notice of the '265 Patent and/or the '176 Patent, either by means of Half.com's corporate affiliation with eBay or otherwise.

64. Notwithstanding service of the Complaint in this action upon ReturnBuy, ReturnBuy continues its infringement

of the '265 Patent. ReturnBuy's continued infringement of the '265 Patent after receiving notice of MercExchange's patent rights has been willful, and will continue to constitute willful infringement unless enjoined by this Court.

65. MercExchange is entitled to recover damages adequate to compensate for the infringement of the patents in suit, as well as additional damages for willful infringement.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff MercExchange prays for judgment against each of the Defendants, granting MercExchange the following relief:

A. That this Court adjudge and decree that the '051 Patent is valid and enforceable against eBay, that the '176 Patent is valid and enforceable against eBay and Half.com, and that the '265 Patent is valid and enforceable against all Defendants;

B. That this Court adjudge and decree that eBay has infringed the '051 Patent, that eBay and Half.com have infringed the '176 Patent, and that all Defendants have infringed the '265 Patent;

C. That this Court enter judgment that all Defendants knowingly and willfully engaged in such infringement;

D. That this Court permanently enjoin Defendants, their affiliates, agents, servants, employees, attorneys, representatives, successors and assigns, and all others in active concert or participation with them from infringing the '051 Patent, the '176 Patent, and the '265 Patent;

E. That this Court order an accounting to determine the damages to be awarded to MercExchange as a result of Defendants' infringement;

F. That this Court order an award to .MercExchange of such damages as it shall prove at trial against Defendants that are adequate to compensate MercExchange for Defendants'

infringement, said damages to be no less than a reasonable royalty;

G. That this Court order an award to MercExchange of up to three times the amount of compensatory damages because of defendants' willful infringement;

H. That this Court render a finding that this case is "exceptional" and award to MercExchange its costs and reasonable attorneys' fees, as provided by 35 U.S.C. § 285; and

I. That this Court grant such other and further relief as the Court may deem proper and just.

JURY DEMAND

Plaintiff MercExchange demands a trial by jury of all matters to which it is entitled to trial by jury, pursuant to Fed. R. Civ. P. 38.

Dated: November 21, 2001

Respectfully submitted,

MERCEXCHANGE, L.L.C.,

BY: /s/ [Illegible]

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Attorneys for the Plaintiff
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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

No. 2:01CV736

MERCEXCHANGE, L.L.C.,

Plaintiff,

vs

EBAY et al.,

Defendants.

Plymouth Meeting, Pennsylvania
Thursday, May 30, 2002

Excerpted Deposition of

MARGARET CUSHING WHITMAN a witness, called for examination by counsel for Plaintiff pursuant to notice and agreement of counsel, beginning at approximately 9:38 a.m., at the law offices of Fenwick & West, 2 Palo Alto Square, Palo Alto, California, before Kathleen A. Wilkins of Beta Reporting & Videography Services, notary public in and for the State of California, when were present on behalf of the respective parties:

* * * *

* * * *

[65] Q Is the acquisition of Half.com part of a strategy to increase the mix of fixed price sales through eBay?

A It was another marketplace that was largely a person-to-person and a small business marketplace that sold only in the fixed price format. Whose users sold only in the fixed price format.

Q You may have said this, and I apologize if I have asked this before, but when did eBay acquire Half.com?

A I think the deal closed in May or June of 2000.

Q In November of 2000, did eBay institute the Buy It Now feature?

A November of 2000, yes. I think that's correct.

Q Explain what that feature is.

[66] A Buy It Now?

Q Yes. item to put a price on their listing which they would sell that good to a buyer who wanted to buy it at that particular price right now.

Q In 2001, did eBay begin to or initiate having eBay Stores?

A Yes.

Q Tell me about that, please. What is that?

A EBay offers the opportunity for sellers to have a store-front on the eBay website where they can have their listings that they have on eBay put into their store as well as be able to list other items in a fixed price format that appear only in their store.

Q Are you familiar with the phrase "Billpoint"?

A Yes.

[67] Q What is that?

A Billpoint is our payment subsidiary.

Q Tell me how that works. How does that subsidiary assist eBay, if it does?

A It assists our sellers. Billpoint allows sellers to accept credit cards. They effectively act as a merchant processor for sellers to be able to accept credit cards.

Q So if you are an individual and you're selling on eBay, with Billpoint you can accept credit cards from buyers who want to buy your items.

Q Has the name Billpoint now

* * * *

[114] A We have a philosophy which was in place from the beginning that will sound I think somewhat naive to perhaps lawyers, but we actually believe that people are basically good, that 99.9 percent of people want to do the right thing.

Q Right.

A And so what you try to do is to make the smallest number of rules that you can and get out of the way.

[115] Q Right

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

No. 2:01CV736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., *et al.*,
Defendants.

Las Vegas, Nevada
Tuesday, June 4, 2002

Deposition of

PIERRE OMIDYAR

a witness, called for examination by counsel for Plaintiff pursuant to notice and agreement of counsel, beginning at approximately 10:14 a.m., at the offices of All-American Court Reporters, 633 South Fourth Street, Las Vegas, Nevada, before Cameo L. Kayser, notary public in and for the State of Nevada, when were present on behalf of the respective parties:

* * * *

[10] back and look at the calendar to give you a precise answer. We have one scheduled for tomorrow. I guess that would be the second meeting.

Q Where is the board meeting going to take place tomorrow?

A Tomorrow it is in San Jose.

Q Will you be attending?

A Yes.

Q Do you maintain your office in San Jose?

A I do not maintain an office for myself in San Jose.

Q Do you maintain an office as your role as chairman of eBay in Las Vegas?

A Not in my role as chairman. I—have—since my operational responsibilities—since I have no operational responsibilities with the company as president, I have an office here in Henderson outside of Las Vegas for lack of personal and non-eBay-related activities.

* * * *

[37] MR. RANDALL: Well, if he did it at the direction of counsel, it is privileged.

All I'm saying is in answering the question, do not reveal any privileged communications with counsel.

THE WITNESS: Right. So once I received this document, the first thing I did was I asked counsel what should I do about it and everything that happened after that was at counsel's direction, so I mean—I don't know.

BY MR. ROBERTSON:

Q Let me ask you this. Physically, where did you search for the responsive documents?

MR. RANDALL: Objection. Assumes facts not in evidence. Also, I will again caution you not to reveal any privileged communications.

THE WITNESS: Uh-huh. The small quantity of eBay-related documents that are [38] not at eBay, in other words, that are in my office, I asked my assistant to go through those files and retrieve anything that was eBay related.

BY MR. ROBERTSON:

Q What files do you have in your office?

A I have files of—as far as—you're talking about—you're asking about Ebay-related files?

Q I'm talking about the documents responsive to the subpoena.

A I'm not certain if I had any documents that might have been responsive to the subpoena because I'm not—because whether something is responsive or not seems more of a technical legal matter, so my goal was to produce anything that might be potentially responsive to our legal team and let them figure out what the deal is.

Q If someone writes you a letter and mails it to you as chairman of eBay, is that

* * * *

[45] duties for me because I have no operational responsibilities.

But in San Jose, I have an assistant there. I also have an assistant that works for me directly that assists me with all of my affairs, including non-eBay affairs, so those are the two that I'm thinking of.

Q Are those two individuals who conducted the search on your behalf?

MR. RANDALL: Objection. Calls for speculation.

THE WITNESS: That is true, actually. I know it is an assumption. My answer would be that I would assume that at least those two participated.

BY MR. ROBERTSON:

Q How do you know that you complied with the subpoena if you assumed that people were collecting responsive documents?

A You know, I directed folks to produce anything that was related to eBay to [46] the legal team, for them to—for them to work through and figure out what was responsive or not.

All of my documents were made available and there you go.

Q Do you have a laptop PC?

A Yes.

Q Do you have a desktop PC?

A Yes.

Q Do you have more than one laptop PC that you use?

A Yes.

Q Do you know whether or not you made all of those available to determine whether or not there were any responsive documents in the electronic format?

A All of those meaning laptops or the desktops?

Q Any personal computer that you used that might contain responsive documents.

A Right. I actually—the laptops [47] that I use and the desktop that I use in Henderson I searched through to see if there was anything that was related to eBay that, you know, ought to be produced.

Typically, I actually do not have that much eBay-related information on my hard disk these days because as chairman of the board I don't actually—because I'm not involved operationally, I do not have a lot of data or a lot of documents generally.

Q Did you communicate with eBay personnel by e-mail through your laptop?

A Through my laptop—yes. Through a Web interface into the e-mail system, which is the eBay e-mail system.

Q So you communicated over the Internet through the eBay e-mail system of eBay personnel?

A That is correct.

Q Did you search your e-mail files in your laptop for those e-mails?

A To my knowledge, because the eBay

* * * *

[69] and I want to make sure that you understand that. We have gone through his documents a number of times, produced anything that could possibly be relevant, including documents that are not even responsive. We produced them to you.

So, there, I want to make sure that you understand it.

MR. ROBERTSON: I do not want a debate here today when Mr. Omidyar's time is involved.

But you produced no documents in response to the subpoena after the order was entered. You produced 900 documents before we went down to the hearing on May 13th.

On May 17th, the judge issued an order telling you that you were to produce all documents responsive to the subpoena, and we received nothing since then.

Subsequently, you have written me letters indicating that, in fact, the witness has approximately ten e-mails from That is your acknowledgment of the

* * * *

[254] Now, it is important to note that [255] the transaction was never consummated through eBay and at the end of the day, it was still an introduction of two people and it was—it enabled them to agree on a price as well, but it was still just an introduction.

* * * *

[387] Q That is your acknowledgment of the human resources handbook?

A Yes, that is right.

Q It indicates that at paragraph 2 that your job offer is effective December 23, 1994.

A I see that, yes.

Q Is that an accurate start date as far as, you know, of your employment with General Magic?

A I believe so. I believe I started right at the end of 1994, so that is correct.

Q If you could, turn to GM 22 in this Exhibit 35 (sic), do you see there is a notice to employee as to change in relationship form?

A Yes, I see that.

Q Do you see that it has a voluntary quit effective August 2, 1996?

A Yes, I see that.

Q Do you see your signature at the [388] bottom acknowledging a copy of the notice on August 2nd, 1996?

A Yes.

Q Did you understand under your employment agreement that you had a duty of loyalty to your company?

MR. RANDALL: Are you asking about a specific position in the agreement that he signed?

MR. ROBERTSON: Just generally did he understand that he had a duty of loyalty to General Magic.

THE WITNESS: "Duty of loyalty" is not a phrase that I recall hearing. So where does that show up?

BY MR. ROBERTSON:

Q Did you understand that you had an obligation under the law to present your employer with corporate opportunities?

MR. RANDALL: Objection. Lacks foundation. It is vague and ambiguous.

THE WITNESS: Yes. I was not—I [389] was not familiar with that law that you are stating.

BY MR. ROBERTSON:

Q Did you inform general Magic that you were developing a Website that would provide auction services between September of 1995 and your termination in August of 1996?

A It depends by what you mean by inform. I made my manager aware of what I was doing on my off time. My colleagues were also aware.

Q Did you offer to provide the software that you had created to perform the service offered by eBay available to General Magic?

A I was never asked to make that offer.

Q Did you think you had an obligation to provide that software to General Magic?

MR. RANDALL: Objection. Lacks [390] foundation. Calls for speculation. It is vague and ambiguous.

BY MR. ROBERTSON:

Q Do you need the question read back?

MR. RANDALL: Was there a question pending? What was the question?

THE WITNESS: He objected and I phased out.

(The reporter read the record as requested.)

THE WITNESS: So no, I did not think I had an obligation. In fact, there is a clause in here that states pretty clearly where future inventions are known entirely by you, it says.

So my layman's understanding of that, because I did not have an attorney necessarily review it on my behalf was that I owned my inventions.

BY MR. ROBERTSON:

Q Did you consult an attorney with [391] respect to whether or not you had some obligation to provide that software to General Magic?

A During what time period?

Q During the time period from late August of 1995 to termination of your employment in August of 1996.

MR. RANDALL: I will caution you not to reveal confidential conversations you had with counsel. To the extent that you do not feel you had such an obligation, you can certainly tell Mr. Robertson.

THE WITNESS: Of course. So I cannot answer that question because I did have conversations with counsel.

BY MR. ROBERTSON:

Q You did have conversations with counsel?
A I guess I'm not supposed to answer that question.
Q I do not want the substance.

MR. RANDALL: Let-me talk to the [392] witness for a minute.

MR. ROBERTSON: You have been talking to the witness all day.

MR. RANDALL: If you need to reveal confidential privileged information between you and an attorney, do not reveal that portion.

If you have an understanding separate and apart from any communication you may have had with your attorneys, that you had no obligation whatsoever to provide anything that you did on your own time to General Magic, then say so.

THE WITNESS: Well, it is not, actually. I did previously state that according to this clause, which I referred to, that I did not feel. I answered your first question about whether I had an obligation, and I told you I did not have an obligation.

BY MR. ROBERTSON:

Q My second question was, did you [393] consult an attorney with respect to whether or not you had an obligation? I don't want to know the substance of your conversation. I

want to know, did you consult an attorney during that time period?

MR. RANDALL: If the question is simply, did you consult with an attorney during a certain time period, you can certainly answer that.

MR. ROBERTSON: Of course.

MR. RANDALL: Yes or no.

THE WITNESS: I want to be clear. Your prior question about whether I felt a sense of obligation I already answered negatively. No sense of obligations based on my layman's interpretation of this agreement.

I did not consult an attorney to inform that sense of obligation in myself.

BY MR. ROBERTSON:

Q On page 1 of the agreement under General Magic's right and inventions, [394] subheading I, you agree to make full written disclosure in confidence to General Magic of any and all inventions that you developed during or as a result of your employment at General Magic.

Did you make full written disclosure to General Magic of your development of the eBay software?

MR. RANDALL: Objection. Assuming facts not in evidence and lacks foundation.

THE WITNESS: Does that mean that I don't answer the question or how does that work?

MR. RANDALL: That means that you should answer the question.

THE WITNESS: I did not make a written disclosure about eBay to anyone at General Magic that I recall. Although I have to say—well, with the exception of potentially e-mails

that may have gone out. But in terms within the context of a legal thing, that I don't recall if that existed.

[395] BY MR. ROBERTSON:

Q Did you speak to any officers at General Magic disclosing the eBay software that you developed during your employment at General Magic?

MR. RANDALL: That questions lacks foundation and assumes facts not in evidence, namely that he would be required under this agreement.

THE WITNESS: As I previously stated, I had—my understanding of what this agreement was, I did not have an obligation to disclose was my understanding, which may have been erroneous, but that is for you guys to tell me, I suppose. I did discuss it with my manager.

So I felt that I had fully addressed my responsibilities.

BY MR. ROBERTSON:

Q The question was, did you tell any officers that eBay had developed eBay software during your employment at General [396] Magic?

MR. RANDALL: I think you misspoke.

BY MR. ROBERTSON:

Q Let me rephrase the question. Did you tell any officers at General Magic of the software that you developed for your eBay Website?

A There came a time when I did tell various officers or various officers became aware of eBay and the fact that it was being developed while I was an employee.

Q Which officers?

A That I do not recall specifically, but—

Q When did that occur?

A That, also, I do not recall specifically. It may have been after I left the company.

Q Did you ever get a release from General Magic indicating that they no longer claimed any rights in the software that you [397] developed to operate the eBay Website?

MR. RANDALL: Objection. Assumes facts not in evidence that they ever did seek a release. They no longer sought a release. It also assumes—lacks foundation whether or not they would ever be entitled to make that claim.

THE WITNESS: Yes. Again, I do not know if it was terribly relevant. The information was out there. People knew what I was doing.

BY MR. ROBERTSON:

Q The question is, did you ever get a release from General Magic with respect to this software that you have been discussing? Yes or no?

MR. RANDALL: Objection. Lacks foundation. Assumes facts not in evidence.

THE WITNESS: I do not recall receiving anything personally. It is entirely possible that at some later date that eBay legal went and talked to them. I [398] have no idea.

BY MR. ROBERTSON:

Q You have no idea?

A I have no idea if that has actually taken place or not. But as far as me personally receiving anything during that time period, no, I did not.

Q We discussed this earlier. You are generally aware that public use of an invention can be rendered unpatentable if no patent is applied for more than one year after that public use or commercial use; correct?

MR. RANDALL: Objection. Assumes facts not in evidence and calls for a legal conclusion.

THE WITNESS: We discussed the general concept. I did not know if it was a year or anything like that or how you define public use or commercial, but the general notion.

(Omidyar Deposition Exhibit

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case Number 2:01-CV-736

MERCEXCHANGE, L.L.C.

Plaintiff,

v.

EBAY, INC.,

Defendant.

VIDEOTAPED DEPOSITION OF JOHN PHILLIPS

Reston, Virginia

Tuesday, June 4, 2002

* * * *

[199] they all occur—strike that.

Your communications with Mr. Monahan and Cohen of eBay, did those communications all occur before you began to have communications with Mr. Kumamoto?

A. I guess that's right, yes.

Q. And did you call—strike that. Who did you have your first communication with at eBay? Was it Mr. Cohen?

A. I guess that would have been Mr. Cohen, yes.

Q. And you have gone to law school with him?

A. Yes.

Q. So did you call him up at eBay? What did you do?

A. I'm speculating here. I think what happened is, I saw the announcement, I had just moved in-house, and I called him up and saying, "Hey, look at us, we both have gone to

Internet companies. Let's get together for lunch sometime," type of call, is my best guess.

[200] Q. Do you talk about the Woolston patents?

A. At some point we discussed at least one of the Woolston patents. I don't know if it was that phone call or a subsequent one. There might have only been one. I just don't remember.

Q. And so you brought up the Woolston patents to Mr. Cohen?

A. Yeah. I don't believe he was aware of them until I told him.

Q. So you said, "Hey, we are both working at Internet companies now, let's have lunch sometime," and then at some point during the conversation, you brought up the Woolston patents; is that—

MR. CAMPBELL: Objection Form.

THE WITNESS: Again, this is speculation, but my general recollection of the conversation is that Todd was telling me, Todd, Mr. Cohen, was telling me about what he was working on and the issues that he was facing or the company was facing, and one of them was eBay's lawsuit against Bidders Edge, to preclude them [201] from pegging their web site, and I had knowledge of Mr. Woolston's portfolio, had the claims, patent claims relevant to that, and I discussed the possibility of Mr. Woolston, of eBay gaining the benefit of that potential patent protection.

Q. And when you say that Mr. Woolston's patents had claims that were relevant to that, are you suggesting that Mr. Woolston's—strike that.

Are you suggesting that Woolston's patents could have been used against Bidders Edge?

A. That was a possibility that I thought warranted the exploration.

Q. So you suggested to Mr. Cohen that eBay explore Mr. Woolston's patents as a potential means to combat Bidders Edge; is that right?

A. EBay had already sued Bidders Edge, as I understand, on a computer trespass, which is a relatively novel theory, and doesn't have much force to—behind it, at least at that time.

Patent rights in my mind were a better vehicle to address that type of activity, and I suggested to Mr. Cohen that eBay may want to [202] explore that.

Q. Did you suggest to Mr. Cohen that eBay might want to explore obtaining the Woolston patent portfolio so that they could use it against companies in the Bidders Edge business?

A. I don't remember the exact terms I used, but that was one of the possibilities, yes.

Q. And what did Mr. Cohen say to you?

A. I don't recall specifically. I recall expression of considerable interest on his part.

Q. Did you, during that call, say to Mr. Cohen that you felt that eBay was infringing any of the MercExchange patents?

A. I don't believe I said that, no.

Q. After that communication with Mr. Cohen, what was the next communication you had with anyone at eBay?

A. I'm not entirely certain of this. My recollection is that somehow a call was set up with me and Mr. Monahan, and for some reason I seem to remember that he called me, but I'm not sure that's entirely accurate.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

EXCERPTED VIDEOTAPED DEPOSITION OF JOSEPH PETSICK, Taken by me, Deborah M. Fernau, Court Reporter and General Notary Public within and for the State of Nebraska, commencing at the hour of 11:30 a.m., on the 10th day of June, 2002, at the law offices of LIAKOS, EPSTEIN & MATUKEWICZ, L.L.P., 8701 West Dodge Road, Suite 406, Omaha, Nebraska.

* * * *

[38] A. It was my understanding that most of the work that happened in that office was development of actual technical products.

Q. When you say "development of technical products," I gather that the people are probably engineers of some sort or programmers?

A. Yes. The people that I interacted with were either an engineer and/or a programmer.

* * * *

[39] earlier?

A. I can't recall. I gave you a guess.

Q. Okay.

A. And I've no specific knowledge of any specific head count of who did or did not exist in that building.

Q. Okay. Did they ever develop a working system for Leftbid?

MR. BRIGGS: Objection, lack of foundation. You can answer.

THE WITNESS: Well, um, not that I'm aware of.

BY MR. HENDERSHOT: Q. Were you aware of most products that were developed at Aden and it's affiliated companies?

A. Only regarding Leftbid at the time Navlet would have been existing and doing work.

Q. So if you were aware of products developed for Leftbid, you would have been aware of any products developed for Leftbid by Navlet?

A. Yes.

Q. Are you aware of any product developed for Leftbid developed by Navlet?

[40] A. Not that was ever used by Leftbid or that was in proper working order.

Q. What do you mean by "proper working order"?

A. At the time that Leftbid was scheduled to try to broadcast an auction from France, the system that Navlet had so far worked on, did not work.

Q. And when you said "the system that Navlet had so far worked on," that was the system developed in the Navlet DC office?

A. I believe it was, yes.

Q. What didn't work about it?

A. It didn't deliver the functionality built and the requirements necessary to properly broadcast an auction to allow them to bid within it.

Q. Did Leftbid ever conduct any on-line actions?

A. Yes, it did.

Q. What software did it use to conduct the on-line auctions that it did conduct?

A. It uses software discovered from a third party.

Q. Do you recall who that third party is?

[41] A. The name of the company I believe was Softglobe.

[64] Q. How about the operations of the Leftbid auction, compared to the operations of the eBay auction, was that ever discussed at Aden?

A. Uh, I'm pretty certain it probably was.

Q. Do you recall being party to any of those discussions?

A. I recall no specific discussion, but I do understand that I know that often—often times people in the office talked about eBay

* * * *

[105] that Navlet had developed to date because it was not properly functioning, Mr. Borghi, Mr. McEachern, and perhaps others, searched and located the Softglobe software.

Um, I was asked to travel to Paris to help facilitate the use of that Softglobe software from the auction floor. And at that time, I flew over there with Mr. Borghi, and started working with him daily to help broadcast his auctions from Paris and Europe. So that's—that's how that situation developed for me.

* * * *

[106] Q. Did you or Mr. Maxwell, after the calls will Tom Woolston on Friday, June 7th, ever discuss the possibility of being sued?

A. Yes.

Q. When did you discuss that?

A. Um, on June 7th, I think, roughly around 4 p.m.

Q. What was the nature of that conversation?

A. Um, Mr. Maxwell had just, I believe, finished a phone

call with Mr. Liakos, who had relayed to Mr. Maxwell that he was told if we did not move forward with the motion to quash—I believe was the word that was used—that a lawsuit was threatened against us as individuals by whomever Mr. Liakos spoke to with Hunton & Williams.

Q. After you instructed Mr. Woolston to contact your counsel—strike that. Did you personally tell Mr. Woolston to contact your counsel, Mr. Liakos?

A. I recall, yes, that I did.

Q. Did Mr. Woolston call your offices after you gave him that instruction?

[107] A. Yes, he did.

Q. Did he give you an estimate—can you—how many times did Mr. Woolston call your offices after that?

A. I think twice after, which I did not speak to him at either time. I believe Mr. Maxwell did.

Q. Did Mr. Maxwell ever tell you that he—that Mr. Woolston threatened suit against him and you? A. I don't recall that he did.

Q. Were you ever contacted by an attorney from Cooley Godward, counsel for the defendants?

A. Yes, I was.

Q. Were you personally contacted?

A. Yes, I was.

Q. Do you recall the name of the attorney who contacted you?

A. I do not.

Q. Was it Kenneth Chang?

A. That does sound familiar.

Q. What did Mr. Chang call up to discuss with you?

A. He prefaced his conversation letting me know that he was representing eBay in regards

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

EXCERPTED VIDEOTAPED DEPOSITION OF KENNETH MAXWELL, taken by me, Deborah M. Fernau, Court Reporter and General Notary Public within and for the State of Nebraska, commencing at the hour of 8:30 a.m., on the 11th day of June, 2002, at the law offices of LIAKOS, EPSTEIN & MATUKEWICZ, L.L.P., 8701 West Dodge Road, Suite 406, Omaha, Nebraska.

* * * *

[90] that we had in our possession that we would be sued.
[91] Q. Did your attorney tell you that Scott Robertson of Hunton & Williams threatened to sue you and Mr. Petsick if you did not give MercExchange the documents in advance of providing them to eBay?

A. Yes.

Q. So just so I have the time line straight in my head, attorneys from the law firm of Hunton & Williams called Mr. Liakos a couple of times last week. On Friday, Scott Robertson, lead counsel for MercExchange, also an attorney for Hunton & Williams, called Mr. Liakos [92] and informed him that you and Mr. Petsick would be sued by MercExchange if

you did not produce the documents requested in the subpoena to MercExchange before he produced them to eBay?

Q. Is that correct?

A. Yes, that is correct, yes.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

DEPOSITION OF CAMERON McEACHERN

HIGHLY CONFIDENTIAL—ATTORNEYS' EYES ONLY

DATE: JUNE 14, 2002

DAY: Friday

TIME: 11:13 a.m.

PLACE: Five Palo Alto Square
Palo Alto, California

PURSUANT TO: Notice, Subpoena

REPORTED BY: LOUISE MARIE SOUSOURES,
CSR No. 3575

* * * *

[83] I didn't—that's about it.

Q. Did he talk about the lawsuit at all?

A. He—

MR. FITZPATRICK: Objection, calls for hearsay.

THE WITNESS: He did. He said in regards to the subpoena, a whole bunch of people had been subpoenaed. And

he said, what do you want to do about it? I said, I have surgery scheduled that day that I waited years to get and I wanted to get it and I really wanted to get out of testifying that day. I didn't tell him I was leaving the country or anything. I said I did not want to miss this opportunity of having this procedure. And he said we can help and I said, that's great, but I have my own attorney, let me speak to my attorneys tomorrow and we will call you from his office.

BY MS. LANZ:

Q. Did he say in what ways he would help?
A. I don't know. He said he could help and that was it.
Q. Did he—by help, you mean help you not testify?

MR. FITZPATRICK: Objection, calls for [84] speculation.

THE WITNESS: Well, if you take my wife's opinion, she wanted him to pony up a check for my legal expenses.

BY MS. LANZ:

Q. Did he do so?
A. No.
Q. Okay.
A. So, I really didn't discuss it at all, because I didn't know what help I needed, to be quite frank with you.
Q. Okay. And then did you ever talk to him again after that conversation?
A. Yeah, I rang him straight back because I had given him the wrong time I was speaking to my lawyer and he would have been expecting a call an hour earlier and I corrected that. So, probably one or two minutes later.
Q. Okay. I'm sorry, who would be expecting a call?
A. What I said, I said to Tom, look, I have an appointment, specific time at I think it was 11:00 o'clock, I will call you your time at 1:00 o'clock. I forgot it was going to be at 2:00 o'clock, because I was figuring he was in Omaha.

* * * *

[96] Q. What is your understanding of the cross-ownership relationship?

MR. BRIGGS: Objection, calls for a legal opinion.

THE WITNESS: I didn't—I didn't think that Tom allowed to have any piece of MercExchange. I felt that MercExchange had securities—had some ownership of Aden. So—

BY MS. LANZ:

Q. And do you know what is meant by the phrase "the unique synergy that will allow Aden to profit from MercExchange's patent enforcement actions"?

MR. FITZPATRICK: Objection, calls for speculation.

BY MS. LANZ:

Q. What is your understanding of that?

A. My understanding is that MercExchange had an intent to enforce its intellectual property rights.

Q. And that's your—that was your understanding at the time?

A. It was a particular issue of debate between Tom and I on a regular basis.

Q. What was the subject of the debate?

A. He comes from a legal background. He very strongly believed he owned the intellectual property [97] that others were using. And he was aggressive about it. That's fine, that's okay, good luck to him, but this was a business plan based around the creation of a business and I never felt that one of the pillars holding up the business plan should be enforcement actions on patents. It just didn't make sense to me.

Q. But Tom Woolston did think—

MR. FITZPATRICK: Objection, calls for hearsay and calls for speculation, assuming the end of the answer is referring to your last comment—the witness last comment.

THE WITNESS: He did think that. He felt that it was—that it was an element of the business plan, yeah. He felt it was a strong element.

BY MS. LANZ:

Q. Okay. Were you—you had said you had a dispute about it?

MR. BRIGGS: Objection to the extent it mischaracterizes his prior testimony.

THE WITNESS: I wouldn't call it a dispute. We had numerous discussions on the matter.

BY MS. LANZ:

Q. Okay. And did Mr. Woolston ever go into any specific plans for patent enforcement activities?

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., *et al.*,

Defendants.

Reston, Virginia
Tuesday, June 18, 2002

VIDEO DEPOSITION OF THOMAS WOOLSTON

* * * *

[87] Q Can you answer my question? Did you consider yourself, at the time you filed your application, to be one of ordinary skill in the art as it pertains to your applications, yes or no?

A Well, I don't want to sound like a jerk, but I think I was one of extraordinary skill in the art.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

DEPOSITION OF MICHAEL LUTHER, held at the Hotel Roosevelt, 45 East 45th Street, New York, New York, pursuant to Notice and Subpoena, before David Levy, CSR, a Notary Public of the State of New York.

* * * *

[23] its patent portfolio?

A. As I recall, it had assets. It was—it was a business that I felt was being responsibly managed, albeit small.

Q. Other than Mr. Woolston's management and that portfolio, do you recall any other significant asset that MercExchange might have had in January 1999?

A. I—I can't cite any specific asset. But as it was perceived by us, this was a business that had both human resources in terms of Mr. Woolston and other—other parties who were members of the MercExchange, had office facilities and had intellectual property. So I would suppose that that complement of resources constituted the bulk of the assets, if you will, of the company.

Q. Later, in paragraph 12 of Exhibit 1, the agreement states that in exchange for the services and funding, "Aden

shall obtain restricted common stock equal to ten percent of MercExchange on a fully-diluted basis."

Do you see that?

A. Yes.

Q. Did you read that sentence before you signed Exhibit 1?

A. Yes.

[24] Q. You understand that sentence?

A. Yes.

Q. So Aden was going to acquire ten percent of MercExchange?

A. Yes.

Q. For $250,000 and other services?

A. Yes.

Q. Did Aden pay the $250,000 to MercExchange?

A. I believe so.

Q. Do you recall when?

A. No.

Q. Do you recall if Aden paid the $250,000 to MercExchange referenced in paragraph 12 of Exhibit 1 shortly after the agreement?

A. I would imagine so.

Q. Prior to executing Exhibit 1 on January 19th,

* * * *

[29] Q. Any information Mr. Woolston asked for prior to executing Exhibit 1 he was provided with?

A. Yes.

Q. So to your knowledge, prior to Exhibiting Exhibit 1, Mr. Woolston had knowledge of Aden's financial situation?

A. Yes.

Q. Do you have any idea what that knowledge was based on?

MR. BRIGGS: Objection, calls for speculation.

A. No. No, I don't.

Q. Did you discuss with Mr. Woolston the subject of Aden's financial situation prior to executing Exhibit 1?

A. Yes.

Q. And you said information about Aden's finances were available in the public records at the time?

A. Over the course of time, I would imagine that one would be able to determine that, yes.

Q. Prior to January 19th, '99, would this information have been available in public records?

A. Sure.

Q. So around January 1999, did Aden's [30] liabilities exceed its total assets?

A. In all likelihood, yes.

Q. Prior to January 1999, had Aden Enterprises ever operated at a profit, to your knowledge?

A. Not likely.

Q. To your knowledge, was Mr. Woolston aware that Aden Enterprises had never operated at a profit prior to—

A. Yeah, I would suppose so.

MR. HENDERSHOT: I'd like to mark as Luther Exhibit 2 a U.S. corporation income tax return beginning—the year beginning May 1, 1998 through April 30th, 1999, bearing the name Aden Enterprises.

(Deposition Exhibit (Luther) 2, Aden Enterprises' U.S. corporate income tax return for period 5/1/98 through 4/30/99, marked for identification, as of this date.)

Q. Do you recognize Exhibit 2, Mr. Luther?

A. Yes.

Q. Do you recognize it as a tax return for Aden Enterprises?

A. Yes.

Q. Have you heard of the company, Blackman & Associates?

[31] A. Yes.

Q. How have you heard of the company, Blackman & Associates, Mr. Luther?

A. They produced this tax return.

Q. Do Blackman & Associates produce tax returns for Aden on a regular basis?

A. Yes.

Q. So sitting here today, you have no reason to question whether or not the numbers reflected here are accurate if they were prepared by Blackman & Associates?

A. Yes.

Q. I'd like to run through some numbers in here with you really quickly if you don't mind.

A. Sure.

Q. On the front page, in box D at the top of the page, right-hand corner, it lists Aden Enterprises' total assets, do you see that?

A. Yes.

Q. Lists them as $355,071. Is-that consistent with your recollection of Aden's financial situation in 1999?

A. Yes.

Q I'd like to refer you to what's marked as page 5 in the upper right-hand corner. [32] At line 13-A, it says "intangible assets," do you see that?

A. Yes.

Q. A number corresponding to line 13-A in column C is $59,161, do you see that?

A. Yes.

Q. So at the end of the tax year ending April 30, 1999, Aden had approximately $59,000 in intangible assets?

A. Yes.

Q. And $355,000 in total assets?

A. Yes.

Q. So Aden had a little under 300,000, if my math is right, in tangible assets?

A. Yes.

Q. The front page of Exhibit 2, I'd like to refer you to line 11.

A. Okay.

Q. It lists the total income for Aden Enterprises during the year May 1, 1998 through April 30, 1999.

A. Yep.

Q. It lists the number as $98,140 for total income, do you see that?

A. Yes.

* * * *

[34] Q. Other than amortization, do you see any entries in that list that are not operating expenses for Aden Enterprises?

A. No.

Q. So the $342,000 listed less the roughly 4,000 in amortization leaves about $338,000 in operating expenses—

A. Yes.

Q. —for Aden Enterprises in 1999?

A. Yes.

Q. So Aden Enterprises had $338,000 in operating expenses in 1999, and $98,000 in total income?

A. Yes.

Q. You say you have no reason sitting here today to question the figures I represented on this tax return marked as Exhibit 2?

A. No.

Q. Okay. Prior to executing the agreement marked as Exhibit 1, Mr. Woolston would have been aware of these figures?

A. Yes.

Q. In the agreement marked as Exhibit 1, Aden Enterprises is promising to issue four million shares of Aden stock to MercExchange.

A. Um-hum.

* * * *

[40] Do you see that?

A. Yes.

Q. It's fairly similar to the license grant that you obtained in the January 19th, 1999 agreement?

A. I believe so.

Q. Why did you all renegotiate the January 19th, 1999 agreement?

A. I believe that the relationship between Aden and the MercExchange was growing and becoming more expansive due to our mutual realization that what I said was true, that the relationship was expanding.

Q. How was it expanding, Mr. Luther, "It" being the relationship between Aden and MercExchange?

A. It was growing like a flower.

Q. When you say it's "growing like a flower," growing in terms of the involvement between the two companies, in one another's operations?

A. And the opportunities that existed in the e-commerce marketplace.

Q. I'd like to focus on the relationship between the companies for the moment, if you don't mind. At the time of April 20th, 1999, did Aden Enterprises own any ownership interest in MercExchange?

A. Can you restate the question?

Q. Sure. At the time that you executed Exhibit [41] 3 on April 20, 1999, did Aden Enterprises own any ownership interest in MercExchange?

MR. BRIGGS: Calls for a legal conclusion.

A. I believe the prior—the prior agreement that we referenced in previous testimony referred to Aden taking an ownership stake. And I believe that we were in compliance with that.

Q. So I take it pursuant to the January 19th, 1999 agreement, MercExchange also owned an interest in Aden Enterprises?

A. To my knowledge, yes.

Q. I'd like to direct your attention to paragraph 17. The final sentence reads, "Aden shall receive fifty percent of the net consideration after deducting legal fees and other costs of such action received on any enforcement action in the travel services industry," do you see that?

A. Yes.

Q. So you were buying a share of any recovery MercExchange might have from enforcing its patents in the travel services industry?

MR. BRIGGS: The document speaks for itself.

A. I—I'd be speculating as to exactly the

* * * *

[56] Q. Who is Anders Ulegard?

A. He is a gentleman who lives in Geneva, Switzerland.

Q. Do you know Anders Ulegard?

A. Yes.

Q. How do you know Anders Ulegard?

A. He's a shareholder in Aden Enterprises.

Q. Approximately how many shareholders does Aden Enterprises have?

A. Many.

Q. Is Anders Ulegard a significant shareholder in your company?

A. Yes.

MR. BRIGGS: I would object to the form. There was no time period stated.

Q. On September 22nd, 1999, was Anders Ulegard a significant shareholder in Aden Enterprises?

A. Yes.

Q. Would officers within Aden Enterprises in the September 1999 time frame often communicate with Mr. Ulegard about the operations of Aden Enterprises?

MR. BRIGGS: Objection, calls for speculation.

A. Mr. Ulegard is the chief executive officer of an investment banking firm called Quaestus [57] that provided investment banking services to Aden, so in the course of those activities, there was dialogue.

Q. About how often did officers of Aden Enterprises communicate with Mr. Ulegard?

A. During that period of time, frequently.

Q. On a daily basis?

A. I—I don't recall. Likely not daily.

Q. Would officers of Aden Enterprises often talk to Mr. Ulegard about just the day-to-day operations of Aden Enterprises or would the communications be limited to more significant events?

A. I—I would say that he was apprised of things that—that would have—the conversation would have been rather frequent. It certainly wouldn't be mundane issues.

Q. I hand you what I've marked as Exhibit 5, Mr. Luther. (Handing document to witness.)

Q. Take a moment to review it, if you want. (A pause in the proceedings.)

Q. Did employees and officers of Aden Enterprises often use e-mail to communicate during the 1999 time frame?

A. I assume so.

Q. Did you use e-mail often, Mr. Luther?

[58] A. Excuse me?

Q. Did you use e-mail often?

A. Yes.

Q. Do you know if Mr. Woolston used e-mail often?

A. I imagine.

Q. Did he e-mail you often?

A. I would imagine he did.

Q. Do you have any reason sitting here today to believe that this isn't an accurate copy of an e-mail sent from Mr. Woolston to Anders Ulegard on September 22, 1999?

A. I would imagine it is accurate.

Q. I direct your attention to the second line under "FYI," in the second paragraph. Would you read that line for me, please, Mr. Luther.

A. "As you know, we have eight pending patent cases."

Q. The next line, Mr. Luther.

A. "We have received a notice of allowability of claims that cover eBay, Fair Market, Open Site and other online auctions in one of the cases."

Q. Okay. The closing sentence of that paragraph beginning with "thus," would you read that for me?

A. "Thus, we should have a patent issuing in the [59] next month or two that read on eBay."

Q. I'm assuming, Mr. Woolston, that reads . . .

MR. BRIGGS: Is that a question?

MR. HENDERSHOT: Or just a comment.

Strike it, if you will.

Q. Do you see the last paragraph in Mr. Woolston' message, Mr. Luther, beginning with, "The allowance"?

A. Yes.

Q. It refers to the claims as "the eBay claims," do you see that?

A. Yes.

Q. You said that officers of Aden Enterprises wouldn't e-mail, Mr. Ulegard with mundane issues, is that correct?

A. Yes.

Q. So I take it there would be some significance attached to the events happening at the Patent Office that Mr. Woolston is referring to?

A. Well, I think that—I would constitute the relationship with Mr. Woolston and all the activities associated with our e-commerce business as being significant.

Q. Did Mr. Woolston e-mail Mr. Ulegard about all of the activities in the e-commerce area?

* * * *

[67] Q. Do you recognize Exhibit 6, Mr. Luther?

A. Yes.

Q. Do you recognize the e-mail account mluther628@aol.com?

A. Yes.

Q. Is that an e-mail account that you were using on or about October 3, 1999?

A. Yes.

Q. Do you recall receiving this e-mail from Mr. Borghi?

A. I believe so.

Q. Do you have any reason sitting here today to believe that you didn't receive this e-mail from Mark Borghi on October 3rd, 1999?

A. No.

Q. When was Leftbid founded?

A. Shortly after this e-mail was written.

Q. So, just to see if I've got the timeline straight in my head, you met Mr. Borghi when you bought some art from him on eBay, then you had some discussions, I take it, about the possibility of starting a business that led to Leftbid?

A. Correct.

Q. And Leftbid was founded sometime shortly after October 3rd, 1999?

[68] A. Yes.

Q. And Mr. Borghi joined Leftbid as its CEO when it was founded, is that correct?

A. Yes.

Q. On October 3rd, 1999, what stage were those discussions regarding the Leftbid idea at with you and Mr. Borghi?

A. Very preliminary.

Q. So you didn't have a website?

A. No.

Q. Didn't have auction software?

A. Correct.

Q. In the e-mail, Mr. Borghi refers to the possibility of using eBay initially to sell art.

A. Yes.

Q. Did you consider using eBay initially to sell art for Leftbid?

A. I don't recall. I'd say not necessarily.

Q. The third line of Exhibit 6, Mr. Borghi writes, "As to Leftbid, here are the pros and cons on using eBay," and then provides an analysis. Does that refresh your recollection as to whether or not eBay was considered as a vehicle for selling art for Leftbid?

A. I think that his e-mail speaks for itself. [69] He certainly considered it, and we talked about it.

Q. So nothing in the e-mail jumps out at you as inconsistent with your recollection of what was going on October 3rd, 1999?

A. No.

Q. I'd like to draw your attention to paragraph three quarters of the way down the page beginning with, "Maybe I'm looking too high." Mr. Borghi writes, "Maybe I'm looking too high but I think if what you guys tell me is for real, you do not need eBay. According to Tom, you're going to sue eBay in Virginia in the next couple of months. I cannot imagine that using their company will look too good in a civil action." In your preliminary discussions with Mr. Borghi regarding Leftbid in the October 1999 time frame, was there

any individual affiliated with Leftbid named Tom other than Tom Woolston?

A. No.

Q. So you understand the reference to "Tom" in the sentence I just read to be referring to Tom Woolston?

A. I would assume so.

Q. So Mr. Borghi writes that, "According to Tom, you are going to sue eBay in Virginia in the next

* * * *

(Recess taken.)

[95] VIDEOGRAPHER: We're returning to the record, 10:30 from 10:18.

EXAMINATION (Cont'd.)

BY MR. HENDERSHOT:

Q. Mr. Luther, before we went off the record, I had asked you if Mark Borghi had voiced any concerns that Mr. Woolston's development efforts for the Woolston engine for the Leftbid website might have included unnecessary features from the Woolston patents; do you recall the question?

A. I do.

Q. I'll give you a chance to answer it again because we cut you short last time.

A. He could have made statements pertaining to that.

Q. And Mark Borghi was CEO of Leftbid?

A. Correct.

Q. I'd like to direct your attention back to Exhibit 7. I'd like to discuss a few of the terms. Paragraph 1.1 on the first page—

A. Yeah.

Q. —in October of 1999, did you understand that Leftbid was acquiring a nonexclusive license to Mr. Woolston's patents in the fine art sector?

[96] A. Yes.

Q. And in paragraph 1.2, did you understand that Leftbid was contractually obligated to assure that there was a tight nexus between its commercial product and Mr. Woolston's patents?

MR. BRIGGS: Objection, it calls for a legal conclusion.

Q. I'm just asking your understanding at the time.

A. Yeah, I'm a little bit foggy on this particular point. I mean, I'm—given that I was not a signatory to the document, and that I'm not an attorney, I'm—I'm reading it as it—as it is written, and I think I understand the interpretation of it.

Q. What's that understanding?

A. Of tight nexus?

Q. You said you understand the interpretation of it.

A. Yeah.

Q. I'm just asking what that understanding is.

A. My understanding is that Leftbid—Leftbid greed by virtue of this document to—to be in the development, I assume, develop its Internet market and markets and auctions that would employ elements of the [97] Woolston patents that are delineated on Exhibit—article 4.

Q. So you understood that there was some contractual obligation for Leftbid to tie its products in some way to Mr. Woolston's patents?

A. I understand that in reading this. I don't recollect at the time.

Q. So I'm clear, you recollect that you did not understand that or you don't recollect having an understanding?

A. I don't recollect having an understanding.

Q. I'd like to direct your attention to 1.3 on page 2. It says, "As partial consideration for the license provided herein, Leftbid tenders 7.5. percent of its shares to MercExchange."

Do you see that?

A. Yes.

Q. Did you read paragraph 1.3 in October of 1999?

A. I don't recollect.

Q. Did you understand in October of 1999 that Leftbid was giving 7.5 percent of its shares to MercExchange?

A. Yeah, there were a series of agreements, one of which we've discussed previously, the original [98] agreement with MercExchange, and I believe that there are successor agreements. I was not a signatory to this document, so I can't specifically state what I—was aware of and what I was not aware of.

Q. But you were CEO of Aden Enterprises—

A. That's correct.

Q. —and Aden Enterprises owned one hundred percent of Leftbid's shares in October of 1999, prior to executing this agreement?

A. Not necessarily.

Q. I thought you said it was a wholly-owned subsidiary when it was founded.

A. It would have been a wholly-owned subsidiary the day it was founded and then we brought in other shareholders.

Q. What were Leftbid's assets on October 8th, 1999?

A. I don't recall.

Q. But you said Leftbid did not have a website when it was founded?

A. Correct.

Q. And it didn't have a website, I presume, on October 8th, 1999?

A. I wouldn't necessarily conclude that. I—

* * * *

[103] Q. So it was a contractual obligation there but given the fluid nature of how everything was working—

A. Correct.

Q. —it's not—you're not certain whether or not that actually would have occurred.

A. That's right.

Q. Do you recall if Mr. Woolston ever served as an officer of Leftbid?

A. I think he was on the board.

Q. Actually, I'm going to try to speed this up.

MR. HENDERSHOT: I'd like to mark as Exhibit 9 a Xerox copy of four business cards of Thomas G. Woolston.

(Deposition Exhibit (Luther) 9, Xerox copy of four business cards of Thomas G. Woolston, marked for identification, as of this date.)

Q. Have you had a chance to review what's been marked as Exhibit 9, Mr. Luther?

A. Yes.

Q. I'd just like to run through these and see if they were consistent with your recollection of Mr. Woolston's role. You said you thought Mr. Woolston was on the [104] board of Leftbid. Do you also recall him serving as chief technology officer?

A. Yes.

Q. Do you recall Mr. Woolston serving as CEO and president of Navlet?

A. Yes.

Q. Do you recall Mr. Woolston serving as managing director of MercExchange?

A. Yes.

Q. And do you recall Mr. Woolston serving as chief technology officer of Aden Enterprises?

A. Yes.

Q. Do you recall if Mr. Woolston held any of these positions at the same time?

A. I assume so.

Q. But to your knowledge, when he was an officer of Aden Enterprises during his time with Aden, he was still managing director of MercExchange?

MR. BRIGGS: Calls for speculation.

A. I don't know.

Q. I'd like to direct your attention to the last page of Exhibit 7, which is the Leftbid license. Do you see who signed on behalf of MercExchange?

A. I've stated that in previous testimony.

[105] Q. Is that Thomas G. Woolston's name signed on behalf of MercExchange?

A. Indeed it is.

Q. Does that refresh your recollection as to whether or not Mr. Woolston was: acting as managing director of MercExchange at the same time he was an officer of Aden Enterprises?

A. Presumably so.

Q. Do you recall when Mr. Woolston held any of these positions with the Aden companies?

MR. BRIGGS: Objection, vague and ambiguous.

Q. Do you recall when Mr. Woolston was chief technology of Leftbid?

A. Somewhere between October of 1999 and the spring of 2000.

Q. Do you recall when Mr. Woolston served as CEO and president of Navlet?

A. All—same for all the above.

Q. When the Leftbid license agreement with MercExchange was executed on October 8th, 1999, to your knowledge, was Mr. Woolston serving as an officer of one or more of Aden's subsidiaries?

A. I would assume he was.

Q. And at that same time on October 8th, 1999, [106] was it your understanding that Mr. Woolston was also serving as a managing director of MercExchange?

A. I think it's managing member, is how he signed it, yeah.

Q. But is it your understanding that Mr. Woolston was serving as managing member?

A. To the best of my knowledge, yes.

Q. And on October 8th, 1999, to the best of your knowledge, Aden owned some ownership interest in MercExchange or was entitled to shares?

A. Yes.

Q. And on October 8th, 19999, MercExchange owned an interest in Aden Enterprises or was entitled to claim shares demonstrating such an interest?

A. Yes.

MR. HENDERSHOT: I'd like to mark as Exhibit 10 a license agreement between Aden Enterprises and MercExchange LLC dated October 28th, 1999, bearing Bates number ME 0024198 through 24206.

(Deposition Exhibit (Luther) 10, license agreement between Aden Enterprises and MercExchange LLC dated 10/28/99, Bates numbered ME 0024198 through 24206, marked for identification, as of this date.)

* * * *

[114] was. It—it could have been. Maybe it was because we offset royalties that were owed to them. I don't recall specifically.

Q. At the time you executed Exhibit 10 on October 28th, 1999; did you understand the grant of the 53 million warrants for shares of Aden stock to replace any ownership interest MercExchange might have had in Aden prior to that date?

A. Yeah.

Q. So on October 28th, 1999, why did you agree to give MercExchange 43 million more shares than you had earlier in the April 20th, 1999 agreement, for the same license?

A. That's a really good question.

Q. Do you recall any reasons?

A. We thought he was really smart.

Q. So I take it MercExchange paid $53,000 to Aden to exercise the 53 million shares?

A. Speculating. Just speculating. As I said, I don't know whether we offset moneys that were owed or what.

Q. Did you read paragraph 1.5 before you executed the exhibit marked as—

A. Yes.

Q. —Exhibit 10?

[115] A. Yep.

Q. So pursuant to paragraph 1.5 of Exhibit 10, Aden was purchasing ten percent ownership of MercExchange?

A. Yep.

Q. In consideration for two notes payable in the amount of $4 million?

A. Um-hum.

Q. Why, on October 28, 1999, was Aden going to pay $3.75 million more than it was obligated to pay for the same ownership interest in MercExchange pursuant to the January. 19th, 1999 agreement?

A. That's a good question. I don't recall. That's a good question.

Q. You don't recall any reason whatsoever?

A. Except that I—I guess we—we felt that—that Tom Woolston and MercExchange had—had an opportunity to help our Company immensely, and I think that there was—part of it was just qualitative, was just recognizing the value of their role, which seems to be kind of odd. But I believe that was the genesis of it.

Q. And that role was a role that had expanded between January 19th, 1999 and October 28th, 1999.

A. Right, yeah.

* * * *

[141] Q. —document marked as Exhibit 12?

A. No.

MR. HENDERSHOT: I'd like to mark as Exhibit 13 a complaint in the U.S. District Court for Nebraska filed by Aden Enterprises against MercExchange, LLC.

(Deposition Exhibit (Luther) 13, complaint filed in the U.S. District Court for Nebraska filed by Aden Enterprises against MercExchange, LLC, marked for identification, as of this date.) (Document placed before the witness.)

Q. Do you have Exhibit 13 in front of you, Mr. Luther?

A. Yes.

Q. Would you take a moment to review it for me. (A pause in the proceedings.)

A. Okay.

Q. Would you refer to paragraph 6 of the complaint. Do you see paragraph 6, Mr. Luther?

A. Yes.

Q. Paragraph 6 reads, "On or about January 7th, 2000, the plaintiff," being Aden Enterprises, "Through its president and chief executive officer, entered [142] into a patent enforcement agreement." Does this refresh your recollection as to when you executed the patent enforcement agreement marked as Exhibit 12?

A. I think that's. what I said, didn't I?

Q. I think—I think you presumed that you executed it on January 7th based on the date of the option agreement referred to therein.

A. Oh.

Q. Does Exhibit 13 refresh your recollection as to when you executed the patent enforcement agreement marked as Exhibit 12?

A. I'm—I'm inferring it was January 7th, 2000.

Q. I direct your attention back to Exhibit 12, the patent enforcement agreement. Would you read paragraph 1 for me.

A. "Whereas MercExchange LLC ('MercExchange') believes that it has claims rising under the patent laws of the United States—"

Q. I don't mean to interrupt, Mr. Luther, but the paragraph numbered 1.

A. "Unless otherwise agreed to in writing, the infringing party referred to herein on the subject of the enforcement pro-

ceedings is eBay, Inc., the [143] infringing party, a California corporation, currently in the business of conducting—"

Q. That's good enough. I just want to identify eBay. If I could direct your attention to paragraph numbered 2 on the first page of. Exhibit 12, it provides that, "Aden and MercExchange hereby agree to share in the costs and expenses of any enforcement proceedings involving the MercExchange patents against the infringing party with Aden paying nine-tenths of those costs and expenses and MercExchange paying one-tenth of the costs and expenses." Do you see that?

A. Yeah.

Q. So prior to January 7th, 2000, had you reached an agreement with MercExchange, and "you" being—you acting in your capacity as CEO of Aden—to bring suit against eBay whereby Aden and MercExchange would share in the costs and expenses of the proceeding?

A. Well, as evidenced by this contract that—that certainly is what we agreed to do.

Q. I would direct your attention to paragraph 3, which states, "Aden will receive 22 percent of any recovery," do you see that?

A. Yes.

[144] Q. Is that consistent with your understanding of the agreement on January 7th, 2000, that Aden would receive 22 percent of any recovery—

A. Yes.

Q. —had from eBay?

A. Yes.

Q. So on January 7th, 2000, Aden Enterprises entered into an agreement with MercExchange marked as Exhibit 12 whereby Aden would share in the costs and expenses of the suit against eBay based on Mr. Woolston's patents and Aden would receive 22 percent of any recovery; is that correct?

A. That's right.

Q. Do you recall if Aden and MercExchange ever entered into a contract similar to the one marked as Exhibit 12 where a party other than eBay was named as the infringing party?

A. Yeah, I believe that—I believe Priceline was the first initiative, and I don't recall whether that was contractual in nature or not. But in the travel sector, and in the auction sector, those were two places that there were infringement issues.

Q. So other than Priceline and eBay, were there any other third parties that were identified as an

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[156] A. Aden didn't hold any. Of Aden's shares? Aden—the parent company wouldn't have held any of the Aden shares. It would have been third parties that held the shares.

Q. How many of the few hundred million shares of Aden stock were available for trading to retail investors in January of 2000?

A. Quite a few. I'm speculating. And the number changed. Certainly tens of millions.

Q. In January of 2000, was Thomas Woolston still employed by Aden Enterprises?

A. January of 2000, I'm assuming so.

Q. To your knowledge, in January of 2000, was Thomas Woolston still president of Navlet?

A. Yeah, I believe so.

Q. And chief technology officer of Aden?

A. Right.

Q. And chief technology officer of Leftbid?

A. I'm assuming that time period that he would have been in that position in those companies.

Q. And on January 24th of 2000, did Aden Enterprises own an interest in MercExchange?

A. Whether—whether the securities were held or we had a contract for those shares, yes.

Q. Prior to January 24th, 2000, MercExchange [157] held shares of Aden Enterprises, is that correct?

A. Either by contract or physically, yes.

Q. Was Tom Woolston still in his position as an officer of Aden and its subsidiaries in March of 2000?

A. I think—I think that his tenure with the company came to a close pretty quickly thereafter. So I don't—I don't recall the exact date. But that would be getting close to the period when he left.

Q. Did he leave prior to or after the first Leftbid auction?

A. About the time of:

Q. And March 1st of 2000, do you think Tom Woolston was still working with Navlet?

A. I'm assuming so.

Q. And he would have been working in his capacity as president and CEO?

A. Yeah.

Q. On March 1st of 2000, Aden held an ownership interest in or was entitled to hold an ownership interest in MercExchange?

MR. BRIGGS: Asked and answered.

A. Yeah, I believe so.

Q. And on March 1st of 2000, MercExchange held shares or was entitled to shares of Aden Enterprises?

A. Sorry?

[158] MR. HENDERSHOT: Would you read the question back?

(Record read.)

A. I believe so.

MR. HENDERSHOT: Mark as Exhibit 16 a license agreement between Navlet.com, Inc., and MercExchange. It is dated March 1st, 2000, bearing Bates numbers ME 0052370 through 52375.

(Deposition Exhibit (Luther) 16, agreement between Navlet.com, Inc., and MercExchange dated 3/1/00, Bates

numbered, ME 0052370 through 52375, marked for identification, as of this date.)

Q. Do you have Exhibit 16 in front of you, Mr. Luther?

A. Yes.

Q. Would you take a moment to review it, please.

A. Yep, I see it.

Q. Is that your signature on the last page of Exhibit 16?

A. Yep.

Q. Do you recognize Exhibit 16, Mr. Luther?

A. Yep.

Q. Do you recognize Exhibit 16 as a license [159] agreement executed by Navlet.com and MercExchange on the first day of March 2000?

A. Yes.

Q. And on March 1st of 2000, you said you believed Mr. Woolston was still acting as CEO and president of Navlet?

A. Yes.

Q. Why didn't Mr. Woolston execute the agreement I marked as Exhibit 16 on behalf of Navlet?

A. I don't know.

Q. Do you recall any of the circumstances surrounding the negotiations that led to Exhibit 16, being the license agreement between Navlet and MercExchange?

A. I don't recall specifically. I think that -I don't recall specifically.

Q. Were you an officer of Navlet on March 1st, 2000?

A. Likely I would have been.

Q. Do you recall what office you might have held?

A. I was a board member. I—I'm assuming I had an executive officer role.

Q. But Thomas Woolston was president.

A. Yes.

[160] Q. I'd like to direct your attention to the signature on the left of page 6, the leftmost signature on that page.

A. Yes.

Q. The signature is above the name Thomas G. Woolston, do you see that?

A. Yes.

Q. Does that refresh your recollection as to why Mr. Woolston might not have executed the agreement marked as Exhibit 16 on behalf of Navlet?

A. I don't understand your question.

Q. Do you recall if Mr. Woolston negotiated the agreement marked as Exhibit 16 on behalf of MercExchange?

A. I assume he did.

Q. Do you recall if Mr. Woolston negotiated the document marked as Exhibit 16 on behalf of Navlet?

A. No, I would imagine, because it was a—it was a related party to the company, I would imagine that that would have been the reason that there would have been a, you know, another party who would have been counter to it. An independent party.

Q. So that's probably why you signed it?

A. I'm assuming so.

Q. I'd like to direct your attention to [161] paragraph 2.1. Did you read paragraph 2.1 before you signed Exhibit 16?

A. Yep.

Q. On March 1st of 2000, did you understand that Navlet was acquiring a nonexclusive license to MercExchange's patents in the infrastructure provider sector?

A. I don't recall.

Q. On March 1st of 2000, did you understand that Navlet was acquiring some license right to Mr. Woolston's patents?

A. I—specifically as it relates to Navlet, I know that—that things were developed by Navlet that presumably had some intellectual value. We were the owners of Navlet. It was a wholly-owned subsidiary of Aden, and I can't tell you specifically any kind of interaction between Aden and Navlet, or MercExchange.

Q. And when you say MercExchange, you mean the relationship between MercExchange and Navlet?

A. Yeah.

Q. Could you have told me much about the interaction between Navlet and MercExchange on March 1st of 2000?

A. Navlet was, as I mentioned, a company that was wholly owned by Aden, had a lot of employees, and [162] was developing things, and those were embodied in technology. So that was—that was a stand-alone entity. And as it relates to the MercExchange patent or patents being applicable to that, I—you know, I don't have any specific understanding of that.

Q. Maybe I can try to be more specific.

A. Yes.

Q. On March 1st of 2000 or before March 1st of 2000 when you read paragraph 2.1 of the agreement I've marked as Exhibit 16—

A. Yup.

Q. —did you understand that Navlet was acquiring, pursuant to paragraph 2.1, a non-exclusive license to Mr. Woolston's patents in the infrastructure provider sector?

A. I don't recall that. I'd say it's vague at best.

Q. I'd like to direct your attention to paragraph 3.2 on page 3, which provides that "Navlet shall pay MercExchange an annual payment of either the first $50,000 of gross transactions collected or earned by the company, or"—what looks to be modified to—"2.5 percent continuing royalty of the net revenue generated in the infrastructure provider sector," do you see that?

[163] A. Um-hum.

Q. On March 1st of 2000, did Navlet have any products that it was marketing?

A. Navlet had a pretty neat—a pretty neat application that I think was—we were actually using it for a while, and we were using it in the travel industry. And so I would say that marketing in the sense that the—the application was developed, working, being, shown to people. Whether it was purchased and used by people, I don't think that was the case.

Q. Did Navlet have any revenue streams, to your knowledge, on March 1st of 2000?

A. No, no.

Q. To your knowledge, has Navlet ever had any revenue streams?

A. It's. not in operation today.

Q. To your knowledge, while Navlet was in operation, did it ever have any revenue streams?

A. Not that I am aware of.

Q. So when MercExchange was contracting for a percentage or a share of the money earned by Navlet, pursuant to paragraph 3.2, did you understand that to be contracting for a share of anything?

A. Yeah. We had high hopes for it. I mean, we

* * * *

[179] there was a tight nexus between its commercial products and Mr. Woolston's patents, correct?

A. Yes.

Q. And on May 18th, 2000, you received this letter from William B. Porter alleging breach of the nexus requirement of the Leftbid.com license?

A. Yes.

Q. Okay. But you don't recall the basis for the assertion that the nexus requirement was breached?

MR. BRIGGS: Asked and answered.

Q. You can answer.

A. Presumably, the lawsuit would have defined that. I just don't, you know, I just don't have any—any further insight.

Q. I'd like to direct your attention to Exhibit 13, which was the Aden complaint vs. MercExchange.

A. Okay.

Q. I'd like to direct your attention to paragraph 9 on page 2. Did you ever read this complaint before it was filed in Nebraska District Court?

A. I don't believe I did.

Q. Do you recall if anyone from Aden read the complaint before it was filed in Nebraska District Court?

[180] A. I don't know.

Q. Were you familiar with the substance of the complaint before it was filed in Nebraska District Court?

A. I don't recall. I'm—

Q. Do you recall discussing the complaint with your attorneys prior to its filing?

A. This whole thing happened pretty quickly because we were—because we were in this dispute with Woolston.

Q. I direct your attention to paragraph 9 where it says, "The plaintiff contends that the primary purpose of plaintiff entering into the sale agreement was to enable it to obtain a share of any recovery the defendant had in connection with any patent infringement claims the defendant may have against third parties, including but not limited to the litigation contemplated in the enforcement agreement."

A. Right. I'm not sure what the sale agreement was, though, that we're referring to.

Q. Direct your attention back to the first page, paragraph 5—actually, paragraph-7—appears to be the agreement where Aden offered $4 million for a ten-percent ownership in MercExchange, do you see that?

* * * *

PATENT ENFORCEMENT AGREEMENT BY AND BETWEEN MERCEXCHANGE, L.L.C. AND ADEN ENTERPRISES, INC.

WHEREAS, MercExchange, LL.C. ("MercExchange") believes that it has claims arising under the patent laws of the United States against certain entities whose products and/or services infringe issued patents or granted patent applications ("the MercExchange Patents"); and

WHEREAS, Aden Enterprises, Inc. ("Aden") has acquired an inclusive license within a field of use under the MercExchange Patents, and certain additional license rights pursuant to an Option Agreement entered into as of January 7, 2000, by and between Aden and MercExchange; and

WHEREAS, Aden has an equity ownership interest in MercExchange pursuant to a Capital Common and Sale Agreement entered into as of Oct. 30, 1999 and

WHEREAS, MercExchange and Aden, therefore, have common, annual and substantial interests in the enforcement of the MercExchange Patents, and desire to enforce their respective rights against one or more Infringing Parties ("enforcement proceedings"), including any possible licensing settlement, compromise or litigating and

NOW, therefore, for good and valuable consideration, receipt of which is hereby acknowledged, MercExchange and Aden agree as follows

1. Unless otherwise agreed to in writing, the infringing party referred to herein, and the subject of the enforcement proceedings, is eBay, Inc. (the "Infringing Party"), a California corporation, currently in the business of conducting online auctions at www.ebay.com. This agreement does not apply to any other infringer, potential licensee or third party.

2. Aden and MercExchange hereby agree to share in the costs and expenses of any enforcement proceedings involving

the MercExchange Patents against the Infringing Party, with Aden paying nine-tenths (9/10ths) of those costs and expenses and MercExchange paying one-tenth (1/10th) of the costs and expenses, subject to the terms and conditions of a Representation Agreement entered into by and between Hunton & Williams, MercExchange and Aden, and attached hereto as Exhibit A.

3. Aden and MercExchange, consistent with their mutual interest in enforcing the MercExchange patents, agree to share in the proceeds of any recovery against the Infringing Party, whether by license, settlement, compromise, judgment, award or contract under the following schedule: Aden will receive 22% (twenty-two percent) of any recovery, but only after actual attorney's fees incurred in the enforcement proceedings are paid in full to counsel for MercExchange pursuant to the Representation Agreement (but before any "success factor" paid under that agreement), with MercExchange to receive the balance of any recovery, or 78% (seventy-eight percent) of the proceeds.

4. Aden agrees that MercExchange has the full and unilateral authority to settle or not settle any litigation that may form a part of the enforcement proceedings against the Infringing Party under this agreement. MercExchange, however, agrees to confer with Aden before entering into any settlement agreement.

5. Aden and MercExchange acknowledge that patent litigation can be an uncertain and time consuming endeavor, and there can be no assurance of a favorable outcome from any enforcement proceedings contemplated hereunder.

6. Aden and MercExchange further agree that the funds advanced under this agreement are unsecured and that any recovery can only come from the proceeds of the enforcement proceedings against the Infringing Party, and that no lien

against MercExchange or Aden, their members, officers or directors can arise from this agreement.

7. The parties further agree that any dispute that may arise from this agreement shall be subject to binding arbitration pursuant to the rules of the American Arbitration Association. Arbitration of any dispute arising hereunder shall be conducted at a mutually agreed upon location in Alexandria, Virginia.

???? This agreement is subject to the laws and jurisdiction of the Commonwealth of Virginia.

9. This Agreement may be executed in parts and via facsimile device.

Aden Enterprises, Inc.

/s/ Michael S. Luther
MICHAEL S. LUTHER
President and Chief Executive Officer

MercExchange, LLC

/s/ Thomas G. Woolston
THOMAS G. WOOLSTON
Managing Member

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action Number 2:01-CV-736

MERCEXCHANGE, LLC,

Plaintiff,

vs.

eBAY, INC., *et al.*,

Defendants.

DEPOSITION of MARK BORGI, taken by Defendant, at the Offices of Hunton & Williams, 200 Park Avenue, New York, New York, on Wednesday, June 26, 2002, commencing at 9:45 a.m., before Linda Fisher, a Certified Shorthand Reporter and notary public, within and for the State of New York.

* * * *

[102] that correct?

A My own recollection it's later than October, but if this is the date, this is the date. I did sign it on the spot, so to speak, yes.

Q So it's your recollection that Mr. Woolston, Mr. Luther, according to Mr. Bartlam were involved in a negotiation in coming up with this agreement?

A Yes.

MR. YOUNG: Objection; vague and speculation. You may answer.

Q To your knowledge, is that correct?

A Yes.

Q Did it concern you or anyone else at Leftbid that Mr. Woolston being the CTO of Leftbid and managing member of

MercExchange when he negotiated a license with Leftbid on behalf of MercExchange?

MR. YOUNG: Objection to form. You may answer.

A Can you just be a little clearer on what you want to ask me?

[103] MR. RIFFE: Can you reread that?

(Record read.)

MR. YOUNG: Same objection and speculation, but you may an answer.

A Yeah, I was very upset. Yeah.

Q How? Why, again—

A I was upset because I felt that there was no arm's length transactions between us, you know, and that this was a non-negotiable issue, so yeah, I was upset.

Q And "between us," you mean Leftbid and MercExchange?

A Exactly.

Q Do you know who wrote the original draft of this agreement, to your knowledge?

A No.

Q So you're not aware of any other changes that happened in this agreement prior to your seeing it?

A I saw this day late in the afternoon and that was it.

MR. RIFFE: Mark as Borghi Exhibit 5 a

* * * *

[113] Q Did you understand this section 1.2 after reading it required Leftbid to insure that the Internet auction products it developed employ the subject matter of the patent and applications licensed to Leftbid?

A No, I did—

MR. YOUNG: Objection, vague and lack of foundation, but you may answer.

A No, I did not.

Q Mr. Borghi I would direct your attention to Section 1.2. Section 1.2, for the record, states that "Leftbid shall use best efforts to develop Internet markets and auctions that employ the subject matter of the pending and issued subject patents for use in the field of use in the fine art sector." Do you see that?

A Yes, I do.

Q Did you understand this at the time you read this agreement?

A As I said, I started reading this and I was upset and I voiced my concerns.

Q Were you upset that Leftbid would be tied [114] to employing the subject matter of the pending or issued patents? Was that one of your concerns?

MR. YOUNG: Objection. Lack of foundation. You may answer.

A My objection was that even when you're dealing with your partners, Tom Woolston that there should be an arm's length transaction between these companies and I didn't feel that we're operating in that manner. That was my concern, not that this was a bad document or a good document, it was just that I didn't think it was professionally done, the way this was presented to me.

Q Okay, sure. I'll direct your attention to the next sentence in Section 1.2. It says that "Leftbid shall confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Internet markets and auctions with the claims of the pending and issued subject patents." Did you understand that portion before you signed it?

A No, I did not.

Q Did you understand who at MercExchange

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff.

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

PIERRE OMIDYAR AND EBAY INC.'S MEMORANDUM OF POINTS AND AUTHORITIES IN OPPOSITION TO MERCEXCHANGE'S MOTION FOR CONTEMPT

I. INTRODUCTION

In a further attempt to harass and intimidate high ranking executives of eBay Inc., plaintiff MercExchange has filed a motion to hold eBay and its founder and chairman, Pierre Omidyar, in contempt for allegedly failing to comply with a subpoena issued from the Northern District of California. MercExchange's motion should he denied for the following reasons:

- First, Mr. Omidyar conducted a reasonably diligent search for documents ***prior to the hearing on May 13, 2002***, and made all of his documents relating to eBay available for review and production by legal counsel. As a result of that search, counsel for eBay produced over 900 pages of documents - all before the May 13, 2002 hearing. In addition, after the Court entered its order on May 17, 2002 regarding the production of e-

mail, counsel for Mr. Omidyar and eBay also searched Mr. Omidyar's e-mail account and produced all responsive documents. Accordingly, Mr. Omidyar has fully complied with the subpoena.

- Second, the fact that the defendants did not produce any board minutes is not a basis for contempt. As counsel for defendants has explained to counsel for MercExchange, the board minutes are not responsive to the subpoena. The subpoena only required production of board minutes that refer to MercExchange, Thomas Woolston, or the Patents in Suit. The board minutes in Mr. Omidyar's possession did not contain the required reference and there was no obligation to produce them.

- Third, with respect to the ten privileged e-mails withheld from production, which relate to Mr. Omidyar's search for documents - an issue that even MercExchange must admit is not central to this case those documents are privileged as to eBay and eBay objected to their production. While this Court found that Mr. Omidyar waived any privilege he might have had over the documents, the Court order did not conclude that eBay had also waived its privilege, and eBay was justified in withholding the documents.

- Fourth, as the defendants have repeatedly asserted, this Court lacks jurisdiction to enforce the subpoena issued from the Northern District of California.

Accordingly, this Court should deny MercExchange the opportunity to further harass eBay's executives and deny the motion in its entirety.

II. STATEMENT OF FACTS AND PROCEDURAL HISTORY

Pierre Omidyar founded eBay Inc. years before MercExchange filed this action on September 26, 2001.

Although Mr. Omidyar remains eBay's chairman, he has not been an active employee of eBay since 2000 and has no operational responsibilities at eBay. Deposition Transcript of Pierre Omidyar, ("Omidyar Tr."), 10:16 - 22. A copy of the Omidyar Transcript was submitted as Exhibit C to MercExchange's Motion for Contempt. Moreover, he does not maintain an office at eBay's headquarters in San Jose, and an office in his home near Las Vegas is for eBay and non-eBay related matters. Omidyar Tr., 10:16-22.

In February 2002, MercExchange served over 100 requests for eBay to produce documents relating to this litigation. In response to the requests, eBay contacted Mr. Omidyar and obtained documents from Mr. Omidyar that he had received in his capacity as founder and chairman of eBay. Any documents that were located, responsive and not otherwise privileged were produced as part of eBay's document production.

eBay did not, however, obtain and produce one of Mr. Omidyar's personal documents specifically requested by MercExchange. In its document requests, MercExchange had asked for Mr. Omidyar's personal employment agreement with his prior employer, General Magic. In response to that request, eBay correctly stated that Mr. Omidyar's personal employment agreement with his prior employer was not within eBay's possession, custody or control.

Then, in late Much, MercExchange served a subpoena *duces tecum* on Mr. Omidyar. MercExchange claimed that its subpoena was necessary because eBay had stated that Mr. Omidyar's personal employment agreement with his prior employer was not within its possession, custody or control. Rather than serving a subpoena limited to the one irrelevant document that eBay could not produce, MercExchange served a subpoena with 14 broad requests that were duplicative of requests already served on eBay. This was an interesting position in light of the fact that only about a month earlier, counsel for MercExchange had asserted that MercExchanges

president, Thomas Woolston, was not subject to discovery under Rule 45 and only agreed to produce documents in Mr. Woolston's possession pursuant to Rule 34 of the Federal Rules of Civil Procedure. A true and correct copy of Mr. Woolston's Objections to the Subpoena *Duces Tecum* Served by the Defendants is attached to the Declaration of Steven Zahn ("Zahn Declaration") filed concurrently herewith as Exhibit A. Nevertheless, Mr. Omidyar searched for responsive documents and produced them to MercExchange.

In May, MercExchange filed a motion to compel production of documents from Mr. Omidyar. By the date of the hearing, May 13, 2002, Mr. Omidyar had fully complied with the subpoena. As counsel for MercExchange has admitted, Mr. Omidyar produced approximately 900 pages of documents in response to the subpoena. Omidyar Tr., 69:14-15. At his deposition, Mr. Omidyar explained the process used to collect and produce the documents. Mr. Omidyar and his assistants identified any documents relating to eBay --- not just the categories mentioned in the subpoena and made those documents available to his counsel and counsel for eBay.

1. Mr. Omidyar Conducted A Diligent Search for Documents.

A Rule 45 subpoena requires a witness to conduct a reasonably diligent search for responsive documents. Here, there is no dispute regarding Mr. Omidyar's search for responsive documents. During his deposition, Mr. Omidyar testified as follows:

> By Mr. Robertson:
>
> Q: Let me ask you this. Physically, where did you search for the responsive documents?
>
> Mr. Randall:
>
> Objection. Assumes facts not in evidence. Also, I will again caution you not to reveal any privileged

communications.

The Witness:

A: Uh-huh. The small quantity of eBay-related documents that are not at eBay, in other words, that are in my office, ***I asked my assistant to go through those files and retrieve anything that was eBay related.***

By Mr. Robertson:

Q: What files do you have in your office"?

A: I have files of -- as far as - you're talking about --- you're asking about eBay-related files?

Q: I'm talking about the documents responsive to the subpoena.

A: I'm not certain if I had any documents that might have been responsive to the subpoena because I'm not - because whether something is responsive or not seems more of a technical legal matter. ***so my goal was to produce anything that might be potentially responsive to our legal team and let them figure out what the deal is.***

Omidyar Tr., at 37-38 (emphasis added). Mr. Omidyar further testified:

Q: How do you know that you complied with the subpoena if you assumed that people were collecting responsive documents?

A: You know, I directed folks to produce anything that was related to eBay to the legal team, for them to—for them to work through and figure out what was responsive or not.

All of my documents were made available and there you go.

Q: Do you know whether or not you made [your

laptop and desktop computers] available to determine whether or not there were any responsive documents in the electronic format?

A: All of those meaning laptops or the desktops?

Q: Any personal computer that you used that might contain responsive documents.

A: Right. I actually – the laptops that I use and the desktop that I use in Henderson I searched through to see if there was anything that was related to eBay that, you know ought to be produced.

Omidyar Tr., 45-47. Accordingly, Mr. Omidyar complied with the subpoena and conducted a diligent search for documents.

In fact, MercExchange ***never*** contends otherwise. In its motion for contempt, MercExchange does not argue that Mr. Omidyar failed to conduct a diligent search for documents and admits that Mr. Omidyar produced approximately 900 pages of documents ***before the May 13, 2002 hearing on the motion to compel.*** See MercExchange Motion for Contempt and Omidyar Tr., 69:14-15. The basis for MercExchange's motion is that Mr. Omidyar did not conduct ***another*** search after the production of those documents and after the hearing on May 13, 2002.* However, the May 17, 2002 order did not find that Mr. Omidyar had not already conducted a diligent search and did not require that Mr. Omidyar conduct a third search for documents. Accordingly, MercExchange's argument that a further search was ***implied*** in the order cannot form the basis for a contempt finding. *See In re General Motors Corp.*, 61 F.3d 256, 258 (4th Cir. 1995) (holding that contempt is appropriate only for the violation of an

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* An additional search would have been the third by Mr. Omidyar, who searched for documents responsive to MercExchange's document requests to eBay and for documents responsive to the subpoena.

"unequivocal command.") *see also Project B.A.S.I.C* v. *Kemp*, 947 F.2d 11, 16 (1st Cir. 1991) ("Civil contempt will lie only if the putative contemnor has violated an order that is clear and unambiguous.").

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

CIVIL ACTION NO. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., *et al.*,
Defendants.

MARKMAN HEARING

Norfolk, Virginia

July 30, 2002

Day 1A

BEFORE: THE HONORABLE JEROME B. FRIEDMAN
United States District Judge

[43] for his patent application. And the way Onsale started out is very different than a person-to-person auction which is really the model that eBay has; that is, individual sellers can sell through the eBay service to individual buyers. Onsale started out and it had six merchants. And, for example, it had a vintage watch merchant, and it would have these merchants who' would provide their inventory and they would sell the goods to potential buyers over the Internet.

When asked whether or not they had accounts for these sellers, well, they said, of course, they invoiced them at the end of the month. One of the founders said I would send them a bill and they would pay me 30 days out. They were—they started competing with eBay in I believe November of 1995.

By November of 1997, eBay really won the day because eBay had adopted the person-to-person model whereas Onsale had to go out and find more merchants to supply them with their inventory.

What Onsale then did was, quite frankly, they copied the eBay model and they went selling person to person. When they did that, they suddenly had a problem. You can't invoice thousands or tens of thousands what quickly became hundreds of thousands of potential sellers without automated processes. Automated processes to initiate the auction; automated processes to schedule the auction; automated processes to get your fees; automated processes to permit you to scale [44] massively to size, to go to that kind of person-to-person individual network which *was* so critical to the success of eBay and anticipated and disclose by my client back in April of 1995.

At that point, they said in November of 1997, they realized they needed seller accounts, they needed them to be supported by credit cards, for example. By having them providing credit cards, they had a trust that was imported in the system.

Could I have 404, please. They avoided the delay and expense of manual processing for collecting seller fees. What eBay first started out Your Honor needs to know, they didn't even require payment for sellers to sell on eBay. It wasn't until I believe February of 1996 that they started requiring payments, and all they would do then is invoice you and hope that the payment would arrive. Sometimes it did, sometimes it didn't. Suddenly it became apparent to eBay years later that they needed to start adopting seller accounts so that they would not be, in the words of the founder, burned by sellers.

The other thing that a seller's account as afforded by a financial instrument is to promote efficiency. When the auction has your credit card or debit card, for example, it can simply create an automated record, debit your account, and then later on charge your credit card. So the auction system

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

[Filed Oct. 18, 2002]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC., *et al.*,

Defendants.

ORDER AND OPINION

On July 30 and 31, 2002, the court conducted a *Markman* hearing for the purpose of construing the claims in the plaintiffs three patents at issue. After careful consideration of the briefs submitted by the parties, and the argument of counsel at the hearing, the court issues this Order and Opinion detailing the claims constructions and reasons therewith.

I. Factual and Procedural Background

On September 26, 2001, MercExchange, L.L.C. ("plaintiff") brought the instant action alleging patent infringement in violation of the federal patent laws of the United States, 35 U.S.C. § 271, *et seq.* In its Complaint, plaintiff alleges that eBay, Inc., Half.com and ReturnBuy (collectively "defendants") have infringed upon three patents: U.S. Patent No. 6,202,051 ("the '051 patent") entitled "Facilitating Internet Commerce Through Internetworked Auctions;" U.S. Patent No. 6,085,176 ("the '176 patent") entitled "Method and Apparatus for Using Search Agents to Search Plurality of

Markets for Items;" and U.S. Patent No. 5,845,265 ("the '265 patent') entitled "Consignment Nodes," (collectively "patents at issue"). An Amended Complaint was filed on December 7, 2001; however, the parties and patents at issue remain the same.

On March 13, 2001, the '051 patent was duly and legally issued to the inventor, Thomas

* * * *

This conclusion is further supported by the language of claim 52.[2] The preamble to claim 52 similarly reads [a]n automated method, performed by a computer-based auction system." *Id.* at col. 26, 11, 23-24. In some steps of this claim, the limitation "automatically" appears, indicating that the particular step is to occur automatically. *See e.g., id.* at col. 26, 1, 55 ("automatically auctioning the item for auction . . ."); *id.* at col. 26, 1. 61 ("automatically calculating a seller's commission . . ."); *id.* at col. 26, 1. 63 ("automatically charging the seller . . ."). Therefore, based on this claim, the term "automated method" in the preamble does not add any further limitation to the claim. The same rationale holds true for claim 1. Therefore, the term "automated method performed by a computer-based auction system" does not require that all steps of claim 1 are automatically performed via an automated process.

2. *Auction*

The plaintiff strenuously argues that there is no need to deviate from the ordinary and accustomed meaning of the term auction; a jury can understand what an auction is without further clarification from the court. The defendant, on the other hand, feels that the term must be construed by the court

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[2] The court is aware that each independent claim is to be read without reference to other claims; however, review of this claim provides the court some guidance on the issue.

because the plaintiff limited it through his written disclosure prosecution history.

As the court must do with all claim constructions, it initially gives the term auction its ordinary and accustomed meaning. The plaintiff argues that this meaning is a process where participants can bid on an item. The court accepts this as the ordinary meaning. Next, the court looks to the specification and the prosecution history to determine if the inventor has exhibited an intent to deviate from the ordinary meaning. The main contention here is whether the inventor required that an auction must occur over a "trusted network" The defendant spends considerable time on this point, addressing numerous instances in the specification and prosecution history where the inventor said the benefit of his invention was that it was a trusted network to prevent fraud and create the ability to speculate. For example, the defendant points to the following portions of the specification which it argues serve to limit the claim to one that occurs over a' trusted network:

- To establish a low cost means for a used good and/or consignment stores to establish a "trusted" computerized market for used and collectible goods. '051 patent, col 1, II 40-42
- [T]o provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable[3] to an electronic market. *Id.* at col. 2, II, 12-14.
- All consignment node users or operators, hereinafter users, are "trusted" licensees or franchisers of the software and hardware necessary to create and operate a consignment node. *Id* at col. 2, II, 35-38.

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[3] The inventor uses collectible and collectable interchangeably throughout the patents at issue.

- And local collector's may economically participate in the collectable markets by using local access to a convenient consignment node "trusted" bailee, and electronically presenting collectable goods to an electronic market. *Id.*, at col. 3, II, 4-8.

- [W]hile providing a trusted means to assure potential buyers of the good's bona fide availability and legal title. *Id.* at col. 3, II, 49-50.

- Each consignment node user may be a franchisee of a central franchiser and the franchiser may police the network to give quality control, detect fraud and revoke the franchises or licenses of poor quality consignment node users. Thus, the consignment node is a "trusted" network . . . *Id.* at col. II, 55-58.

- This frame work of trusted franchisee, high confidence and accurate market database, and the legal finality of the transaction, where the legal transaction/"cash" clearing function is performed by the market maker computer, e.g., the participant credit card number or other payment means is only revealed and brokered by the market maker computer 800, is a massive step toward building confidence and trust between a small collectable merchant and participant with electronic transactions. *Id.* at col. 18, II, 47-56.

As the defendant has pointed out, through these and other examples in the specification, the inventor did not disclose a person-to-person transaction. Everything disclosed in the '051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment The Federal Circuit has repeatedly held that "when the

'preferred embodiment' is described as the invention itself the claims are not entitled to a broader scope than that embodiment." *SciMed*, 242 F.3d at 1341 (Fed. Cir. 2001) (quoting *Wang Labs.*, 197 F3d at 1383). Furthermore, "[w]here the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, read without reference to the specification, might be considered broad enough to encompass the feature in question." *Id.* In this case, the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary. As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification. Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

In addition to the trusted network portion of the construction of the term auction, the defendant seeks additional language which reads as follows:

* * * *

> processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for sale, a communications means for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising
>
> > a digital image means for creating a digital image of a good for sale;
> >
> > a user interface for receiving textual information from a user;
> >
> > a bar code scanner;
> >
> > a bar code printer;

a storage device;

a communications means for communicating with the market; and

a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer; said storage device and said communications means, said computer adapted to receive said digital image means of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communication means, stare said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

'265 patent, col. 20, II, 23-59.

1. *Market for goods* [11]

The plaintiff asks this court to apply the ordinary and accustomed meaning to this terms and simply read it to the jury. Alternatively, the plaintiff suggests that the term should be defined as a place where items or goods maybe bought and sold (e.g., here, through a wide area communication network such as the intend). The defendants object to this proposed construction and suggest the following instead: a trusted network where movable personal property is bought and sold.

---

[11] The defendants group this term with the term "market apparatus" from claim 8.

The main dispute between the parties involves the busted network argument which the court has addressed in the other two patents at issue in this case.[12] As the court has held, the inventor envisioned a trusted network to avoid the problems of early Internet transactions. The trusted aspect of his invention was not merely a preferred embodiment, as the plaintiff argues, it was the focus of his invention. As the Federal Circuit has held, "when the 'preferred embodiment' is desciribed as the invention itself, the claims are not entitled to a broader scope than that embodiment." *SciMed Life Sys.*, 242 F.3d at 1341 (quoting *Wang Labs.*, 197 F.3d at 1383). Therefore, for the reasons stated above, the court finds that the market for goods is a trusted network where items or goods may be bought and sold.

2. *Payment clearing means for processing a purchase request from said purchase*

The plaintiff seeks to define this terra as a computer system that accepts electronic payment information from a participant, such as a credit card number, a-money or a debit account number and clears the payment by charging the credit card number, c-money or debit account number via an interface to an external clearing network or debits the payment account amount from an account that is accessible by the system, and any structural equivalents thereat The defendants, on the other hand, seek the following definition:

> This limitation covers the following disclosed structures, and equivalents thereof, for processing a purchase request fro the purchaser: a general purpose computer programmed to perform, steps 268, 270 of Fig. 4, or a general purpose computer programmed to perform steps 402-408 of Fig. 7, or a transaction processor 812, as in

[12] The specification for the '265 patent is essentially the same as that for the '051 and '176 patents, as all three patents arose from the same original application.

> Fig. 12, or a computer with a clear accounts module 825 as in Fig. 12. Such processing must be capable of receiving a purchase request and payment from a participant, clearing the purchase request and payment, and if the payment clears, then transferring the ownership of the good for sale by modifying the data record of the good to reflect the new ownership of the good.

Deft.' Opening Br., Dkt. 159.

As this is a means-plus-function element, the court must first look to whether this falls under section 112 paragraph 6. Because the word "means" is present, there is a rebuttable

* * * *

request. The cited portions of the specification above fully support this interpretation. Therefore, the court adopts the plaintiff's proposed definition for this term.

- **If said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant**

This term also refers back to the same clause of claim 8 involving the functions of the transaction processor. However, with respect to this term, the defendants' proposed definition is correct. The defendants argue that this claim means that if the payment made by a participant for a good for sale clears, then the legal ownership of the good is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good. The plaintiff, on the other hand, states that this claim simply means to record the new owner of the good. However, based on the claim language itself, the specification, and the prosecution history of the inventor's

patents, it is clear to the court that legal ownership of the good is transferred once the payment means clears.

The claim language states that the transaction processor "transfer[s] the ownership of said good for sale." It does not merely say that it records a new owner. While the language continues by saying this transfer of ownership is accomplished by "modifying said data record," the claim is not limited to merely modifying the record – legal ownership must be transferred. Furthermore, the specification discusses the transfer of ownership or legal title in numerous places. See e.g., '265 patent, col. 12, IL, 42-48 ("After the transaction clears the charge 404, the consignment node credits the consignment node users commission account 406 to extract the consignment node transaction fee. The consignment node then transfers legal ownership 408 of the good by changing the ownership entry in the data record in the consignment node of the good."); id. at col. 18, IL, 27-37 ("The procedures, when used in conjunction with the rules and procedures imposed on the posting terminal user through a franchising or licensing legal framework assure that (1) when a record of a good is found on the market maker computer 800 by a participant 900 or another retailer 902, it is in fact for sale and is in the physical and legal possession of a 'trusted' franchise and (2) that when a bona fide purchase price is tendered by a participant 900 or another retailer 902 the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction."); id. at col. 19, IL 11-13 ("The third function is to provide means to process transactions from participants by clearing a transaction and transferring legal title to a good.").

Finally, in the prosecution history of the investor's patents, the inventor stated, on more than one occasion, that "[t]he market maker computer completes transactions having the effect of immediately changing legal ownership of the used or

collectible for sale when the payment is approved by the market maker computer in processing payment, and updates the database and the data record for the used or collectible good for sale." Defs.' Opening Br., Ex. Q, p. BD0012593 (Applicant's Brief Under 37 CFR § 1.192). Therefore, based on the intrinsic evidence, the court adopts the defendants' proposed definition for this claim term; specifically, if the payment made by a participant for a good for sale clears, then the legal ownership of the good is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good.

- **Said notification means notifying the posting terminal apparatus in response to said transaction processor transferring ownership of said good for sale denoting with a finality of transaction said new ownership of said good**

The final claim term in dispute in claim 8 is a means-plus-function claim. Therefore, the court most first determine if this term falls under the purview of section 112, paragraph 6. As the

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01cv736

MERCEXCHANGE, LLC,

Plaintiff,

v.

eBAY, INC., *et al.*,

Defendant.

HEARING ON MOTIONS

Norfolk, Virginia
November 13, 2002

Before HONORABLE JAMES E. BRADBERRY
United States Magistrate Judge.

* * * *

[69] documents is, number one, he just doesn't have documents relating to the plaintiff or Mr. Woolston or the patents-in-suit; number two, he left all of his eBay documents at eBay and had been gone for three years in an inactive state.

THE COURT: This is not an older gentleman, as I recall. This is a guy in his forties, isn't he?

MR. RANDALL: Yes, I think he's probably in his early forties.

MR. STILLMAN: Thirties.

MR. RANDALL: Thirties?

THE COURT: He's in his thirties?

MR. RANDALL: Okay.

THE COURT: This is a guy with a reasonably well-developed intellect who put together a corporation that's been extremely successful, and he's now out of the corporation, but he's still chairman of the board, as I understand. He's just enjoying a comfortable life because he's made a small fortune—made a large fortune, frankly, in the development of this company.

I can't help but wonder, Mr. Randall, when I read the excerpts of the transcript of Mr. Omidyar, how much more useful it may have been to all of us if that deposition of Mr. Omidyar had not been repeatedly interrupted with objections that were simply irrelevant; there were objections that strike me as being [70] intended to either give him an answer or signal something to him that he ought to do in the course of that deposition, instead of simply letting him respond to the deposition, particularly since he's the man that created that corporation.

So on this particular issue, I'm not sure where we stand, except that one of the things I have decided—had decided was that it was necessary to take another deposition of Mr. Omidyar because of the fact that the plaintiff's opportunity to reasonably depose him was interfered with, and I consider it to be materially interfered with. I'll give the plaintiffs that opportunity and the opportunity to explore with him whether or not there are any other documents that he has.

I will accept, at face value, he may not have carried any documents with him and he may not have had anything to do in the last three to four years, and he may not be intimately involved, but I'll guarantee he's got a good enough intellect to have a pretty good idea of documents, and so forth, that were requested and he can answer with regard to each one of those.

Now, Mr. Omidyar is not a party to this action, and I have some deference for people who are not parties to the suit, but I have less deference when their nonparticipation in the suit is further adversely affected by one of the counsel in the suit, and I was deadly serious in what I said.

[71] If I had been dealing with this deposition or had been dealing at the time that it was taking place and knew the objections that were being filed, I'm deadly serious, I would've called your office and said, "Get associate counsel and get then out here not because Mr. Randall is not going to take anymore of this deposition."

You need to understand, I litigated for twenty-five years. I did all sorts of litigation. I litigated in federal court as well as state court. I think that defense counsel, like plaintiff's counsel, have enormous discretion and freedom in what they are able to do in the course of advising their client and representing their client at trial, but you reach a point when you go across the line. You crossed the line on Omidyar. Without question, you crossed the line. And if is unconscionable to interpose the kind of objections that you interposed, which were absolutely unfounded, in an effort to skew how that deposition come off.

So I don't want you to think for a moment that I take this motion for the contempt lightly. I do not.

MR. RANDALL: I understand that, Your Honor, and it was not my intent—

THE COURT: I—

MR. RANDALL: —to obstruct the deposition. It was my intent simply to preserve objections that I thought were appropriate. For instance, Mr. Robertson raised one—

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY, INC., a Delaware Corporation, HALF.COM, INC., a Pennsylvania Corporation, AND RETURNBUY, INC., a Delaware Corporation

Defendants.

EBAY INC.'S MEMORANDUM IN SUPPORT OF EBAY'S POST-*MARKMAN* MOTION FOR SUMMARY JUDGMENT OF NONINFRINGEMENT AND UNENFORCEABILITY OF U.S. PATENT No. 6,202,051.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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* * * *

INTRODUCTION

The Court's October 21, 2002 summary judgment order, which held that the debiting element of the '051 claims is not supported by the '051 patent specification, has eliminated any need for a trial on the '051 patent. All of the '051 patent claims have the debiting element. MercExchange moved for reconsideration, mischaracterizing the Court's order, and incorrectly arguing that the Court, despite its exhaustive consideration of the evidence and arguments, did not read, or understand, MerCExchange's papers. In addition, Mr. Woolston announced to the media, and MercExchange argued to Judge Bradberry, that the Court must hold a trial on the '051 patent anyway, even if it denies the motion for reconsideration.

eBay has filed a separate opposition to MercExchange's motion for reconsideration. In the meantime, in view of MercExchange's insistence that the parties must continue to litigate the '051 patent, and in light of the Court's recent *Markman* ruling, eBay respectfully requests the Court enter summary judgment of '051 noninfringement and unenforceability for the following reasons:

- First, as the Court held at *Markman*, the '051 patent claims cover only a system with a trusted intermediary, and do not cover a person-to-person model. Because eBay indisputably operates a person-to-person system, summary judgment of noninfringement is appropriate.
- Second, summary judgment of unenforceability due to inequitable conduct is also appropriate. The underlying factual issues are not in dispute, and Federal Circuit authority infers intent to deceive under certain circumstances, which are present here. As a matter of law, MercExchange has no admissible

> evidence to challenge eBay's request for summary judgment. Thus, summary judgment of unenforceability is appropriate.

eBay recognizes that the Court has already spent an enormous amount of time and effort on this case. Nonetheless, eBay respectfully suggests that before the parties turn their attention to the remaining two patents, the Court should enter summary judgment of '051 patent noninfringement and unenforceability, so that the parties, and any reviewing court, have a fully-developed record.[1]

Pursuant to Local Rule 56(B), eBay submits herewith a separate statement of undisputed facts.

II. SUMMARY JUDGMENT OF NONINFRINGEMENT OF EVERY '051 PATENT CLAIM.

A. Summary judgment standard.

The Court has already set forth the general summary judgment standard in its October 21, 2002 order. To prove infringement, a patentee must show that an accused method meets every limitation of the asserted claims. If even one limitation is missing, infringement cannot exist as a matter of law and summary judgment is appropriate. *Bell A 11. Network Servs., Inc. v. Covad Communications Group, Inc.*, 262 F.3d 1258, 1279 (Fed. Cir. 2001); *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1211 (Fed. Cir. 1998).

B. The '051 claims, as construed by the Court, exclude a person-to-person system.

As the Court held, after exhaustively reviewing the '051 specification, "the inventor did not disclose a person-to-person transaction." (*Markman* Order and Opinion (Oct. 18, 2002) at 12.) The Court stated, in construing the auction term:

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[1] Summary adjudication of these issues now will also assist the Court in resolving the parties' 35 U.S.C. §285 requests.

> Everything disclosed in the '051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment. . . . In this case, *the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary.* As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification. Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

(*Id.* (emphasis added)). As set forth below, eBay indisputably does not practice this element.

C. eBay indisputably operates a person-to-person system, and thus does not practice '051 claims as construed by the Court.

eBay indisputably operates a person-to-person system, not the trusted intermediary of the '051 patent, and thus does *not* practice the '051 patent claims. As eBay's CEO, Meg Whitman, explained at her deposition, eBay is "an environment where buyers and sellers can connect to do business." McFarland Decl. Ex. I (Whitman TR 30:8-12. *See also* Whitman TR 53:10-19). Rather than adopt the trusted intermediary philosophy embraced by the '051 patent, eBay took the *opposite* approach, and designed a person-to-person system:

> We have a philosophy which was in place from the beginning that will sound I think somewhat naive to perhaps lawyers, but we actually believe that people are basically good, that 99.9 percent of people want to do the right thing. . . And so what you try to do is to make the smallest number of rules that you can and get out of the way.

McFarland Decl. Ex. 1 (Whitman TR 114:13-22).

Thus, as eBay's User Agreement emphasizes, eBay is *not involved* in the transaction between the buyer and the seller, and has no control over the quality of the items listed, the truth of the listing, or even whether the buyer or seller will actually complete the transaction:

> Although we are commonly referred to as an online auction web site, it is important to realize that we are not a traditional "auctioneer." Instead, our site acts as a venue to allow anyone to offer, sell, and buy just about anything, at anytime, from anywhere, in a variety of pricing formats. . . . *We are not involved in the actual transaction between buyers and sellers. As a result, we have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items. We cannot ensure that a buyer or seller will actually complete a transaction.*

McFarland Dec. Ex. 2 (eBay User Agreement ¶13.1 (emphasis added)).

In addition, the Courts have recognized that eBay is a person-to-person system, which does not control, and is not responsible for, the postings on its web-site. *See Gentry v. eBay, Inc.*, 99 Cal.App.4th 816 (Cal. App. 2001) (dismissing, as a matter of law, a complaint by a purchaser of counterfeit sports memorabilia using the eBay site). The *Gentry* court emphasized that eBay is a person-to-person system which, unlike the intermediary of the '051 patent, does not control the conduct of eBay users:

> [I]t was dealers Fitzgerald and Scheinman, not eBay, who chose their own category description for the item offered for sale. . . [W]e consider it was the individual defendants who falsely identified the product as authentically autographed in order to place their items on eBay for sale. . . .

> This claim seeks to hold eBay responsible for having notice of illegal activities conducted by others on its Web site, and for electing not to take action against those third parties, including by withdrawing or somehow altering the content placed by them. . . . Such claims have been uniformly rejected by the courts that have considered them.

Gentry, 99 Cal.App.4th at 832, 835.

Furthermore, eBay's SEC filings, which MercExchange has cited at length, explain that eBay "pioneered online person-to-person trading by developing a global online trading platform that helps practically anyone buy or sell practically anything," and note that eBay bears the risks of a person-to-person system:

> Our business may be harmed by the listing or sale by our users of illegal items . . . Our business may be harmed by the listing or sale by our users of pirated or counterfeit items . . . .
>
> Our business may be harmed by fraudulent activities on our websites
>
> Our future success will depend largely upon sellers reliably delivering and accurately representing their listed goods and buyers paying the agreed purchase price. We have received in the past, and anticipate that we will receive in the future, communications from users who did not receive the purchase price or the goods that were to have been exchanged. In some cases individuals have been arrested and convicted for fraudulent activities using our websites. While we can suspend the accounts of users who fail to fulfill their delivery obligations to other users, *we do not have the ability to require users to make payments or deliver goods or otherwise make users whole other than through our limited reimbursement program*. Other than through this program, we do

> not compensate users who believe they have been defrauded by other users. We also periodically receive complaints from buyers as to the quality of the goods purchased.

McFarland Dec. Ex. 3 (eBay Form 10-Q, p,. 26 (Nov. 14, 2001) (emphasis added)). These, of course, are the risks that the '051 patent purports to avoid.

MercExchange's own proposed expert, Dr. Weaver, has opined that eBay is a "person-to-person" system. McFarland Dec. Ex. 4 (Excerpts of the Expert Report of Dr. Weaver (6/10/02)). Moreover, the baseball-card "demonstration" performed by MercExchange's proposed experts, Dr. Weaver and Dr. Palmer, shows that eBay is a person-to-person system.

First, Dr. Weaver, playing the "seller," did not use his own name and address, but instead registered using his mother's information. *Id.* at 35, 38-40. Neither eBay nor other eBay users knew who the seller was, much less that he was operating under another person's name.

Second, Dr. Weaver provided his own description of a baseball card he wished to sell using his mother's name and address. *Id.* at 43-44 ("Decent condition Frank Robinson 1967 Topps # 100 Baseball Card. Card has rough edges but is now in protective packaging. Buyer pays shipping of $2.00 to United States only."). Again, neither eBay nor other eBay users knew whether Dr. Weaver actually possessed, owned, or had the right to sell, the baseball card; much less knew whether his description of the card was accurate.

Third, although Dr. Palmer placed the highest bid on the card, nothing in either expert report indicates that Dr. Weaver delivered the card to Dr. Palmer. *Id.* Nothing in either expert report indicates that Dr. Palmer sent payment to Dr. Weaver for the card. eBay has no idea whether the buyer and seller actually consummated the transaction.

Thus, the Weaver/Palmer "demonstration" had none of the hallmarks of the '051 patent intermediary. Instead, the demonstration illustrated a person-to-person system, which is the opposite of what the '051 patent describes. eBay is indisputably a person-to-person system, excluded by the Court's construction of the '051 patent claims. Summary judgment of noninfringement is therefore appropriate.

III. SUMMARY JUDGMENT OF '051 PATENT UNENFORCEABILITY.

A. Summary judgment standard.

An applicant who fails to comply with his duty of disclosure commits inequitable conduct, rendering any ensuing patent unenforceable, if material "information was withheld with intent to deceive the PTO." *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1273 (Fed. Cir. 2001). "The defense of inequitable conduct in a patent suit, being entirely equitable in nature, is not an issue for a jury to decide." *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1190 (Fed. Cir. 1993). Thus, "[a] determination of inequitable conduct is committed to a district court's discretion." *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1255 (Fed. Cir. 1997).

B. Factual background.

1. After the PTO rejected all of the '051 patent claims, Mr. Woolston and Mr. Phillips added the "seller's account" feature.

In early 2000, the PTO withdrew the notice of allowance for Mr. Woolston's '051 patent claims after the Examiner, Ms. Smith, discovered prior art showing a trusted intermediary for online auctions in Amy Sharp, *From Army Knives to Gold Coins, Collectors Attend 'On-line' Auctions*, Memphis Business Journal, July 28, 1986. *See* McFarland Decl. Ex. 5 ('021 Appn., June 2, 2000 Office Action at 2). Examiner

Smith rejected all of Mr. Woolston's Internet auction claims, correctly recognizing that they were obvious in view of Army Knives, as well as two other Internet auction references: (1) Save the Earth Foundation: Internet Online Rock and Roll Art Auction; and (2) Computer Museum Holds An Internet Auction. *See Id.* Examiner Smith noted, for example:

> Save the Earth discloses an internet auction wherein items are presented to be

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

CIVIL ACTION NO. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., HALF.COM, INC.,
AND RETURNBUY, INC.,

Defendants.

DEFENDANTS' OPPOSITION TO MERCEXCHANGE'S MOTION TO STRIKE/DISQUALIFY, FILED OCTOBER 18, 2002, AND SERVED NOVEMBER 20, 2002.

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT - FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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* * * *

exchanged expert lists under the Protective Order, enabling each side to check for possible conflicts, and raise any appropriate objection. eBay and the other defendants identified experts and consultants, including Commissioner Mossinghoff, on March 29, 2002. (McFarland Decl. Ex. L). eBay identified Commissioner Mossinghoff as an employee of the Oblon firm. (*Id.*) MercExchange did not object.

On May 16, 2002, eBay provided MercExchange with Commissioner Mossinghoff s C.V. and signed undertaking under the Protective Order, again identifying Commissioner Mossinghoff's relationship with the Oblon firm. (McFarland Decl. Ex. M). That day, MercExchange reviewed the list and belatedly objected to one of eBay's experts, Dr. David Reiley, on conflict grounds. (McFarland Decl. Ex. N). With the date for serving opening expert reports rapidly approaching, eBay took MercExchange at its word, and ceased communicating with Dr. Reiley. On June 5, 2002, after defendants identified two other consultants, MercExchange asked for additional information so that it could "determine whether eBay's retention of these individuals would present a conflict." (McFarland Decl. Ex. 0). MercExchange completed its conflict review, and *never* raised an objection to Commissioner Mossinghoff.

E. Commissioner Mossinghoff offered his expert opinion regarding the duty of disclosure, patent law procedures, and the fact that Mr. Phillips committed inequitable conduct.

eBay uncovered the inequitable conduct of Mr. Phillips and Mr. Woolston, confirmed it at the Court-ordered July deposition of Mr. Phillips, and moved for leave to assert the defense. (*See* eBay's Motion for Leave to Amend (July 23, 2002)). eBay moved as quickly as it could under the circumstances to present expert reports on inequitable conduct, even

before the Court decided eBay's motion for leave to amend. eBay served the supplemental expert report of Dr. Keller, an e-commerce expert who addressed technical issues relating to the inequitable conduct defense, on August 30, 2002. eBay served the inequitable conduct expert reports of Dr. Shamos, another e-commerce expert, and Commissioner Mossinghoff, a patent law expert, on September 23, 2002 and September 20, 2002, respectively. The Court granted eBay leave to amend on October 21, 2002.

The scope of Commissioner Mossinghoff's testimony in this case is narrow and specific. Commissioner Mossinghoff is *not* an e-commerce expert. Commissioner Mossinghoff is not offering any opinion regarding MercExchange's infringement allegations, the operation of eBay's system, or MercExchange's alleged damages and Mr. Woolston's self-dealing "licensing" efforts.

Instead, Commissioner Mossinghoff will testify that MercExchange's counsel, John Phillips, committed inequitable conduct while prosecuting the '051 patent from December 2000 through April 2001. (Merc. Br. Ex. 1). Commissioner Mossinghoff will explain that Mr. Phillips learned of material information in December 2000, had a duty to disclose that information to the PTO in the '051 patent file, and failed to satisfy his duty of disclosure. Commissioner Mossinghoff will testify that this is not even a close case, and will explain that MercExchange's legal defense is unsound. (*Id.*)

Commissioner Mossinghoff's testimony has nothing whatsoever to do with Mr. Woolston's battle with PriceLine, much less anything to do with Mr. Gholz's few hours of consultation with Mr. Woolston, which concluded long before the events addressed in Commissioner Mossinghoffs report.

F. After Commissioner Mossinghoff offered his expert opinion, MercExchange harassed and attempted to deceive him.

Commissioner Mossinghoffs standing in the Virginia patent law community is well-known, and MercExchange has no substantive response to his expert opinion. Thus, *months after* approving Commissioner Mossinghoff as an expert in this case, MercExchange's counsel, Mr. Robertson, wrote Commissioner Mossinghoff directly, falsely alleging that Commissioner Mossinghoffs employer, the Oblon firm, *"represents"* MercExchange *"with respect to the prosecution of those patent applications."* (Merc. Br. Ex. 18 (emphasis added)). Mr. Robertson told Commissioner Mossinghoff to "withdraw the report" and withdraw from the "representation" in this matter. (*Id.*)

Mr. Robertson's letter would have deceived any reader into believing that Commissioner Mossinghoff had offered an expert opinion about the work of Oblon lawyers for a current Oblon client. In fact, MercExchange was *not an* Oblon client, and Commissioner Mossinghoff was *not* offering any opinion about the work of any Oblon lawyers. MercExchange's only connection with the Oblon firm had ended *years earlier*, after Mr. Gholz spent a handful of hours advising Mr. Woolston in the unrelated PriceLine "name-your-own-price" dispute.[2]

G. MercExchange threatened Commissioner Mossinghoffs employer with disciplinary action and public disparagement, and attempted to hide its threats from eBay and the Court.

eBay noted that MercExchange had already approved Commissioner Mossinghoff under the Protective Order, and

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[2] Mr. Robertson also instructed Commissioner Mossinghoff to "check" Mr. Gholz's file. (Mossinghoff Decl., Ex. B) Commissioner Mossinghoff, who does not work on or review any files of the Oblon attorneys, declined Mr. Robertson's suggestion. (Mossinghoff Decl. ¶17)

requested that MercExchange stop harassing Commissioner Mossinghoff at once: "This is not the first time that you have urged witnesses in this case not to testify, and we insist that your inappropriate conduct cease." (McFarland Decl. Ex. P)

eBay noted that Commissioner Mossinghoff does not represent *anyone*, and has no attorney-client relationship with any party in this case. (McFarland Decl. AA, ¶6)). Moreover, Commissioner Mossinghoff has never received *any* confidential information of MercExchange, other than under the Protective Order in this case. (*Id.* ¶¶7-8). Commissioner Mossinghoff had never even heard of Mr. Woolston or MercExchange prior to working on this case. (*Id.* ¶7)

Undeterred, Mr. Robertson then threatened Mr. Gholz and the Oblon firm with a harassing disciplinary action and false public disparagement unless they prevented Commissioner Mossinghoff from testifying:

> [P]lease advise us what steps your Firm now intends to take in order to remedy the conflict of interest. . . .
>
> We understand that both you and Mr. Mossinghoff are admitted to practice by the Virginia Bar. Accordingly, as you are aware, the Virginia Rules of Professional Conduct govern this matter. . . . *Rule 8.3 imposes a duty to report professional misconduct—such as obvious conflicts of its [sic] interest—to the appropriate authorities. Of course, we would not like to see the matter come to this, but we need this resolved promptly.*
>
> Finally, we do not want to have to engage in unnecessary motion practice before the Court in which such *ethical issues will be publicly aired* when your Firm's obligations are quite clear in this regard.
>
> *I know it goes without saying that you are not at liberty to share this communication on behalf of our mutual client [sic] with counsel for eBay.*

(Merc. Br. Ex. 22 (Letter from Robertson to Gholz (9/30/02) (emphasis added))).

MercExchange recognized that its threats to the Oblon firm, Mr. Gholz, and Commissioner Mossinghoff were improper. In fact, Virginia Rule of Professional Conduct 3.4(h) provides that a lawyer shall not "[p]resent or threaten to present criminal or disciplinary charges solely to obtain an advantage in a civil matter." VA. R. PROF. CONDUCT 3.4(h). Furthermore, Rule 3.4(i) states that an attorney *shall not:*

> File a suit, initiate criminal charges, assert a position, conduct a defense, delay a trial, or *take other action on behalf of the client when the lawyer knows or when it is obvious that such action would serve merely to harass* or maliciously injure another.

VA. R. PROF. CONDUCT 3.4(i) (emphasis added).

In a tacit admission that its conduct was improper, MercExchange attempted to conceal its threats from eBay and the Court, writing that *"I know it goes without saying that you are not at liberty to share this-communication on behalf of our mutual client [sic] with counsel for eBay."* (Merc. Br. Ex. 22 (Letter from Robertson to Gholz (9/30/02) (emphasis added))).

MercExchange's harassment and threats against Commissioner Mossinghoff are merely the latest example of its persistent, improper efforts to silence witnesses. Mr. Woolston previously urged willing third-party deponents not to testify,[3] and in May, 2002, Mr. Robertson falsely alleged a

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[3] MercExchange also threatened to sue third-party witnesses, *who were willing to testify* at a deposition, unless they filed a "motion to quash" the deposition, ghost-written for them by Mr. Robertson's law firm. For instance, MercExchange threatened Mr. Petsick. *See* McFarland Decl. Ex. Q (Petsick TR at 106:9-18 ("if we did not move forward with the motion to quash...that a lawsuit was threatened against us as individuals by whomever Mr. Liakos spoke to with Hunton & Williams.")). Mr.

conflict regarding Dr. David Reiley, one of eBay's technical experts. At the time, eBay took Mr. Robertson at his word, but eBay has since learned that *no conflict* existed, and Dr. Reiley could have testified after all. (McFarland Decl. Ex. R, ¶¶11-12)[4]

III. ARGUMENT.

A. MercExchange asks the Court to create an unprecedented and unjustified "vicarious" disqualification theory.

The Virginia Rules, and the courts, recognize that a conflict allegation "should be viewed with caution, for it can be misused as a technique of harassment." COMMENTS TO VA. R. PROF. CONDUCT 1.7. *See also Tessier v. Plastic Surgery Specialists, Inc.*, 731 F.Supp. 724, 729 (E.D. Va. 1990) ("The Court is not unmindful of the recent practice indulged in by some to use disqualification motions for purely strategic purposes."); *Freeman v. Chicago Musician Instrument Co.*, 689 F.2d 715, 722 (7th Cir. 1982) (noting that motions to

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Woolston personally and told these witnesses that they should allow MercExchange's lawyers to represent them to "eliminate our necessity to be deposed." *Id.* (Petrick TR at 98:11-25).

[4] Dr. Reiley explained that lawyers from the Hunton & Williams firm had called him, but broke off the communication *as* soon *as* they learned that Dr. Reiley knew people at eBay. McFarland Decl. Ex. R (McFarland Decl. Ex. R, 11-12) The Hunton & Williams lawyers did not even mention the name of their client, much less provide Dr. Reiley with any confidential information. (Id.) Thus, Dr. Reiley had no conflict with MercExchange, and was eligible to consult with eBay and provide an expert opinion in this case. Courts have condemned the tactics that Mr. Woolston used to deprive eBay of Dr. Reiley's services. *See generally Wang Labs., Inc. v. Toshiba Corp.*, 762 F. Supp. 1246, 1248 (E.D.Va. 1991) ("Lawyers using this ploy are not seeking expert help with their case; instead, they are attempting only to prevent opposing lawyers from obtaining an expert. This is not a legitimate use of experts, and courts should not countenance it by employing the disqualification sanction in aid of it.").

disqualify "should be viewed with extreme caution for they can be misused as techniques of harassment").

"Thus, the moving party bears a '*high standard of proof* to show that disqualification is warranted." *Tessier*, 731 F.Supp. at 729 (emphasis added) (citation omitted). *See also Commonwealth Ins. Co. v. Stone Container Corp.*, 178 F. Supp. 2d 938, 943 (N.D. 111. 2001) ("The moving party bears a heavy burden of proving facts required for disqualification.") (quotation and citation omitted). Disqualification cases typically fall under two categories:

- Attorney disqualification cases, where an attorney represents one party, then switches sides and represents his former adversary, shielded by a cloak of privilege

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY, INC., a Delaware Corporation, HALF.COM, INC., a Pennsylvania Corporation, AND RETURNBUY, INC., a Delaware Corporation

Defendants.

EBAY INC.'S REPLY MEMORANDUM IN SUPPORT OF EBAY'S POST-*MARKMAN* MOTION FOR SUMMARY JUDGMENT OF NONINFRINGEMENT AND UNENFORCEABILITY OF U.S. PATENT No. 6,202,051.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMEN—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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* * * *

1. INTRODUCTION.

Summary judgment of noninfringement and unenforceability is appropriate on the '051 patent. MercExchange fails to identify a single genuine issue of fact. Instead, it consistently denies, or completely ignores, the controlling legal authority.

- First, MercExchange denies that the Court's *Markman* decision means what it says, dismissing the Court's language as erroneous "dicta" or mere "passing references." The time to seek reconsideration of the Court's *Markman* decision has passed, and the parties are now bound to follow it. The Court, like every other court that has considered the issue, correctly recognized the fundamental difference between the '051 patent trusted intermediary and eBay's person-to-person system, a difference that MercExchange's own "evidence" repeatedly emphasizes. Mr. Woolston disclosed only a trusted intermediary, and the marketplace rejected it. Because Woolston cannot now expand his claims to cover something that he failed to disclose, summary judgment is appropriate.

- Second, MercExchange and Mr. Phillips belatedly adopt a new "studied ignorance" defense to inequitable conduct. They contend that Mr. Phillips, after reading Examiner Kemper's decision and the withheld art, and deciding to cite the withheld references in another Woolston application, simply did not decide what to do during the months before the '051 patent issued. However, in order to create the new "studied ignorance" defense, MercExchange and Phillips ignore the Federal Circuit's controlling *Brasseler*, *Critikon*, and *Baxter* decisions, featured prominently in eBay's opening brief. MercExchange

> does not even cite these dispositive cases, much less attempt to distinguish them. The erroneous "studied ignorance" defense merely highlights that Phillips has no legally recognizable response. Summary judgment of inequitable conduct is appropriate.

MercExchange's response to the inequitable conduct motion is disturbing for two additional reasons. First, Mr. Phillips proclaims that he would withhold the information again today: "*I would not have acted any differently.*" The law does not give him the right to make such unilateral decisions. His concern that "few patents would ever issue" if he disclosed all material information is not an excuse, and Phillips knows that Examiner Kemper, Dr. Keller of CommerceNet, and Dr. Shamos of CMU's e-commerce department, have all concluded that the withheld information was indisputably material. Mr. Phillips also knows that Commissioner Mossinghoff has opined that this is a *clear case* of inequitable conduct. "it is axiomatic that '[c]lose cases should be resolved by disclosure, not unilaterally by applicant.'" *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (Fed. Cir. 1997). Yet Mr. Phillips states that he would not act differently today, and in fact, is continuing to seek the invalid '014 "debiting a seller's account" claims from the PTO.

Second, MercExchange asks the Court to create a series of unprecedented loopholes in the duty of disclosure, which would allow patent attorneys to: (1) intentionally ensure that the PTO never considers material art, by submitting late IDS forms out of compliance with the PTO regulations, (2) knowingly mislead the PTO to believe that a feature is novel, by making statements about the prior art "of record," while avoiding statements about "the entire universe" of prior art, (3) deliberately seek inconsistent rulings from the PTO and the Courts, by withholding the highly material decision of a PTO Examiner (or the decision of any authority, including this Court) so long as the applicant can argue that the decision

was "erroneous" and not "final," (4) deliberately prevent the PTO from considering the most damaging information, by disclosing *other*, less material information early in an application, (5) knowingly withhold from the PTO material information from copending applications with the same specification, so long as they do not seek identical claims (co-pending applications are never supposed to seek identical claims). The law does not support *any* of these unprecedented loopholes, which neither save the '051 patent, nor allow Phillips and Woolston to repeat such conduct in their ongoing patent prosecution. Summary judgment is necessary and appropriate.

II. SUMMARY JUDGMENT OF NONINFRINGEMENT OF EVERY '051 PATENT CLAIM.

Summary judgment of noninfringement is appropriate and required. The Court's Markman decision is crystal clear, and the person-to-person nature of eBay's system is beyond dispute. *See Stoner v. eBay*, 56 U.S.P.Q. 2d 1852, 1853 (Cal. 2000) (granting summary judgment that eBay is not legally responsible for the transactions of users on its site: "eBay does not select items to be auctioned, does not inspect or come into possession of those items at any time, does not describe the items to prospective bidders, and does not determine the minimum price which the seller will accept for the item."); *Gentry v. eBay*, 99 Cal. App. 4th 816 (Cal. App. 2002) (dismissing, as a matter of law, a complaint by a purchaser of counterfeit sports memorabilia using the eBay site); *Hendrickson v. eBay*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001) (granting summary judgment for eBay). In an effort to avoid the inevitable, MercExchange disregards the Court's discussion of the '051 patent and its construction of the '051 claims as "a passing reference" and erroneous "dicta." (Merc. Br. at 2, 34).

A. MercExchange asks the Court to overrule the *Markman* decision and expand the '051 claims beyond the support in the specification.

1. The Court correctly recognized the fundamental difference between a person-to-person system and a trusted intermediary.

As the Court and the parties acknowledged at *Markman*, two fundamental, competing types of on-line systems exist: (1) a trusted intermediary system, and (2) a person-to-person system. A trusted intermediary system assumes that Internet buyers and sellers will not take the "leap of faith" and trust each other. Thus, a trusted intermediary transfers ownership, adds value to the description of the goods, and ensures the buyer pays the seller. (*See Markman* Ruling at 12) Woolston explained the trusted intermediary philosophy of his alleged invention as follows:

> Therefore, internet customers are required to make a huge leap of faith that when they present electronic payment they are not going to get ripped off. The present invention solves this problem by placing a trusted intermediary, the market maker, between the customer and the small business. The market maker collects and/or processes payment from an internet customer and may escrow the payment until the customer receives the ordered good. The customer's payment information, or even identity, reside with the market maker and is never passed to the small business.

See Sealed Zahn Dec. (July 18, 2002), Exh. U at ME052442.

A person-to-person system takes the *opposite* approach. In a person-to-person system, the buyer and the seller deal with *each other*. The system does not vouch for the seller's goods, modify the description of the item, or transfer ownership. A person-to-person system sets up a place for the buyer and seller to meet, making the buyer and seller responsible for

consummating the transaction between themselves. The person-to-person approach assumes that, for the most part, buyers and sellers will not cheat or defraud each other. Many people, including Woolston, criticized the person-to-person philosophy as naïve, arguing that no one would take the required "leap of faith" necessary to implement it. In contrast, as MercExchange's *own evidence* notes, eBay's founder, Pierre Omidyar, believed that "people are basically good" and therefore decided to use a person-to-person system. (Phelps Dec. Ex. H). The two philosophies, as MercExchange's *own evidence* states, are "utterly different views of human conduct." (Phelps Dec. Ex. H).

> It all comes down to a few basic questions: Can we still trust people we don't know? Will our lives be better if we open our mailboxes—even our hearts—to people far away? . . . eBay has become a remarkable testing ground for this debate. Some 34 million people now participate in eBay, which consists of buyers and sellers from all over the world. Hardly any of them know one another. Nonetheless, they ring up commerce at a staggering rate . . . taking it on faith that someone really will send the money or ship the goods on time.

(Phelps Dec. Ex. H (emphasis added))

The Court's *Markman* decision is very clear—the '051 patent discloses only the trusted intermediary system, and *teaches away from the person-to-person model*. The Court stated, in construing the auction term:

> Everything disclosed in the '051 patent revolved around *a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price*. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment. . . . In this case, *the patent teaches away from person-to-person*

> *auctions, favoring a system with a trusted intermediary.* As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification. Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

(*Markman* Order at 12 (emphasis added)).

MercExchange asks the Court to ignore its decision and the '051 patent itself. Instead, MercExchange asks the Court to hold that the '051 "trusted intermediary" is any online service provider that allows users to post information, or is somehow "trusted" for something, no matter how unrelated to the '051 patent. Virtually every online system wishes to be "trusted" in the sense that MercExchange now argues.

MercExchange's argument would expand the '051 patent claims to cover *person-to-person* systems, even though the '051 patent "*teaches away*" from them, as the Court held. MercExchange's new argument clearly contradicts the '051 patent and the Court's *Markman* ruling, which states that the '051 trusted intermediary exists to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. (Markman Order at 12).

2. Unlike a person-to-person system, the '051 trusted intermediary transfers ownership, thereby avoiding fraud.

Unlike a person-to-person system, in which the buyer and seller are left to themselves to transfer ownership, the '051 trusted intermediary "transfer[s] ownership of the item." (*Id.* at 12). The '051 patent repeatedly emphasizes the transfer ownership function, which provides for "immediate or nearly immediate finality to the transaction." ('051 col. 18:37-56.)[1]

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[1] Woolston's specification describes a *transactional* system, which processes payments and transfers ownership. It *teaches away* from any-

Transferring ownership is an important part of the '051 trusted intermediary, because it allows the system to be used for rapid re-sale and "speculation," a feature that MercExchange and its experts have repeatedly emphasized.[2] Because the '051 trusted intermediary transfers ownership, buyers and sellers need not worry about fraud from *each other*, they rely on the trusted intermediary.

MercExchange now attempts to disavow the '051 trusted intermediary, incorrectly arguing that Woolston "cannot force people to consummate the transaction. He does not describe a situation in which sellers and buyers are compelled 'at gun point' to close the deal." (Merc. Br. at 36). MercExchange again ignores the patent itself and the Court's *Markman* ruling. The '051 trusted intermediary does not need a "gun"

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thing else. Woolston has admitted that, in contrast, eBay is a "non-transactional system." *See* Sealed Zahn Dec. (July 18, 2002) Exh. O (Woolston's U.S. Patent Application No. 09/422,058), at page 1, lines 13-17 (distinguishing Woolston's own patent specification from eBay: "Auction sites such as ebay™ are non-transactional database driven applications in that transactions are external to the ebay system and between third party participants that use the system, i.e., ebay as a web site and on-line commerce application does not process payment information or require payment information to participate in the system.").

[2] The '051 patent, as the Court noted, repeatedly emphasizes the trusted intermediary's transfer ownership function. *See* '051 col. 5:23-26 ("After the consignment node has cleared the transaction the system electronically transfers ownership of the Frank Robinson card to the participant") '051 col. 10:66-11:4 ("If the highest bid is greater than the reserve price the consignment node auction process posts sold! for xxx amount to the auction participants and calls the transfer ownership subroutine 270, discussed further below, and transfers the ownership of the good."); '051 col. 3:33-38 ("The present invention may allow a participant to electronically purchase goods from a consignment node and to select whether the good should be shipped to a participant designed location or the participant may take electronic legal ownership of a good and post a new participant defined offer or reserve price."); '051 col. 12:55-57 ("The consignment node then transfers legal ownership 408 of the good by changing the ownership entry in the data record in the consignment node of the good.").

because the trusted intermediary itself consummates the transaction, and *transfers the ownership*, as the Court correctly held. The '051 patent trusted intermediary either *already* possesses the goods, or has made a decision that the dealer is sufficiently reputable that the trusted intermediary is willing to vouch for the *bona fides* of the goods.[3]

Nonetheless, MercExchange selectively misquotes the '051 patent, arguing that Woolston's system has the same "fraud" problems as a person-to-person system, and therefore must "'police the network to give quality control, detect fraud and revoke licenses." (Merc. Br. at 36). The cited passage does *not* describe a person-to-person system. Rather, the '051 patent notes that when the trusted intermediary is formed by a trusted *network* of licensed, franchised consignment nodes (as opposed to a single node), the "central franchiser" may revoke the franchises "of poor quality consignment node users" who are failing in their trusted intermediary functions. ('051 Col. 4:5562). In other words, just as fast-food consumers believe that all Taco Bell® restaurants are the same, consumers across the country believe that all of the '051 trusted

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[3] The Woolston patents note that the consignment node user (*e.g.*, pawn broker) could "take postings from reputable dealers or collectors via a facsimile machine or other forms of electronic or verbal presentment of a good for sale," ('051 col. 4.46-50), but in every case, the consignment node user makes a judgment that the goods are bona fide, based on an inspection of the goods or an evaluation of the seller's repute. Woolston's patents do not disclose any means for anonymous and remote sellers to circumvent the consignment node users' gatekeeper function and post their goods to the network independently. In fact, Woolston has recognized that this feature of his patent—having a consignment node user screen goods to be sold on the network—is absent from eBay. In fact, when discussing his "LeftBid" system (one of the businesses in which Woolston unsuccessfully sought to commercialize his invention), Woolston distinguished his system from eBay: "*we have a closed seller system, i.e., only our dealers can sell—not everybody on the web.*" *See* Sealed Zahn Dec. (July 18, 2002) Exh. N at ME 0044444. *See, e.g.*, Sealed Zahn Dec. (July 18, 2002), Exh. K at 167:7-14 (Woolston attempted to implement and build his inventions in LeftBid).

intermediary franchises are the same. In stark contrast, users of a person-to-person system know that they must trust *each other* to consummate the deal, because the system does not ensure that the goods are what they are purported to be, does *not* ensure that payment is made as promised, and does *not* transfer ownership.

3. MercExchange's erroneous "gist" argument misstates the Court's ruling and ignores the law.

MercExchange asks the Court to reverse its *Markman* ruling, complaining that the Court limited Woolston to the "gist" of his alleged invention. The Court did no such thing, but rather, correctly held that Woolston could not expand his patent claims beyond the scope of his disclosure. The Court correctly noted that the '051 patent teaches away from a person-to-person system, and correctly cited authority holding that Woolston could not stretch his claims to cover such a system. The Court properly held:

> The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment. The Federal Circuit has repeatedly held that "when the 'preferred embodiment' is described as the invention itself, the claims are not entitled to a broader scope than that embodiment." *SciMed*, 242 F.3d at 1341 (Fed. Cir. 2001) (quoting *Wang Labs.*, 197 F.3d at 1383). Furthermore, "[w]here the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, read without reference to the specification, might be considered broad enough to encompass the feature 'in question." *Id.* In this case, the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary.

(*Markman* Order at 12).[4]

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[4] MercExchange cannot change the law, or enlarge the scope of the '051 patent, by emphasizing that in 2000, five years after filing his ap-

B. After repeatedly acknowledging at Markman that eBay is a person-to-person system, MercExchange cannot change its mind now.

The battle in the marketplace was over before it started. Mr. Woolston was never able to implement his trusted intermediary philosophy in the marketplace, because it is unwieldy, unnecessary, and not "scalable" at all—no party could effectively perform the trusted intermediary function for millions of transactions each day. Instead, the opposite person-to-person philosophy of eBay carried the day. Cf. Phelps Dec. Ex. EE at 6 (2001 eBay 10-K) (explaining benefits of eBay. "allows buyers and sellers to trade directly, bypassing traditional intermediaries and lowering costs for both parties.").

The battle in this Court should also be put to rest. The parties, and the Court, extensively debated at *Markman* whether the '051 claims could exceed the scope of the specification and cover a "person-to-person" system. During the *Markman* hearing, MercExchange acknowledged that eBay is successful because it adopted the elegant "person-to-person" model. See *Markman* TR at 43 (Mr. Robertson: "a person-to-person auction which is really the model that eBay has; that is, individual sellers can sell through the eBay service to individual buyers."); Id. at 43 (Mr. Robertson: "By November of 1997, *eBay really won the day because eBay had adopted the person-to-person model.*") (emphasis added); *Id.* at 43-44 (Mr. Robertson: describing "that kind of person-to-person individual network which was so critical to the success of eBay"). MercExchange cannot reargue *Markman*, ignore the Court's decision, and claim what MercExchange failed to

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plication, and after eBay rose to prominence, Woolston slipped the phrase "person-to-person" into one of his patent claims without mentioning it to the Examiner, and without explaining what it means in the context of the '051 patent specification. No person of skill in the art would interpret that act as expanding the '051 patent beyond the '051 trusted intermediary.

invent, failed to disclose, and failed to implement in the marketplace.

C. MercExchange's own evidence illustrates that summary judgment of noninfringement is appropriate.

1. MercExchange shows only that eBay users must take the "leap of faith" that the '051 patent trusted intermediary purportedly avoids.

MercExchange ignores the distinction between a trusted intermediary and a person-to-person system, arguing that eBay infringes the '051 patent claims because eBay is concerned with "trust." The argument ignores the purpose of the '051 trusted intermediary. The '051 patent describes a system where the Internet buyer and seller need not trust each other, but need only trust the '051 *trusted intermediary*, which ensures the goods were bona fide, transfers ownership, adds value to the description of the goods, ensures that the funds were transferred, and makes sure that no one is "ripped off."[5] *Thus, buyers and sellers do not have to generate their own good will in the '051 trusted intermediary system.* Buyers and sellers do not have to take the "leap of faith" that Woolston wanted to avoid. Rather, because the '051 trusted intermediary adds value to the description of the goods, transfers

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[5] As the '051 patent specification explains, the trusted "consignment node users" play a central role in the patents, acting as gatekeepers to ensure that goods are *bona fide* before they are sold or auctioned. The consignment nodes, the patent explains, "*provid[e] a trusted means to assure potential buyers of the good's bona fide availability and legal title*" '051 Col. 3:45-50 (emphasis added); *see also* '051 Col. 3:4-8 (describing a "consignment node 'trusted' bailee"). "Thus, the consignment node is a "trusted" network for consignment node users providing value to the network by imposing a quality and performance structure on the consignment nodes." '051 Col. 4:55-62. The '051 patent does not disclose *any* means for anonymous and remote sellers to circumvent the consignment node users' gatekeeper function and post their goods to the network independently.

ownership, and ensures payment, even an unknown, foreign-owned collectible store is able "to receive the business good will of the electronic collectible market place of the present invention [*i.e.*, the trusted intermediary's good will) to establish *immediate trust* with prospective electronic customers." '051 Col. 19:1-5 (emphasis added).

In stark contrast, as MercExchange's own "evidence" shows, eBay users must take that "leap of faith." (Phelps Dec. Ex. H (noting that eBay buyers and sellers are "taking it on faith that someone really will send the money or ship the goods on time")). Buyers and sellers must each build and generate their own individual on-line reputation—they *cannot* rely on eBay's good will. In every case, eBay expressly disclaims any responsibility for the transaction, and emphasizes that it cannot ensure that the buyer and seller will actually perform as promised:

> [W]e have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items. We cannot ensure that a buyer or seller will actually complete a transaction.

McFarland Dec. Ex. 2 (eBay User Agreement ¶3.1 (emphasis added)). Thus, as MercExchange's own evidence notes, "eBay does not take possession of either the item being sold or the buyer's payment for the item. Rather, the buyer and seller must independently arrange for the shipment of and payment for the item." (Phelps Dec. Ex. EE at 12). *See also* Phelps Dec. Ex. D ("In these kinds of auctions it's up to the high bidder and the seller to contact each other . . . after the auction to finalize the purchase and arrange payment and delivery.").

In contrast to the '051 patent system, eBay buyers and sellers must trust each other. MercExchange selectively quotes Ms. Whitman and Mr. Omidyar, who emphasized that

"[w]e really think it's important that users trust *one another*," (Phelps Dec. Ex. LL (Whitman TR at 114:3-8 (emphasis added)), and the trust "is not necessarily between an individual and eBay, the company . . . . . In other words, trust has to be encouraged between individuals." (Phelps Dec. Ex. MM (Omidyar TR at 78:13-7)). Thus, unlike the '051 patent trusted intermediary, eBay does not allow an unknown, foreign collectible store to establish "immediate trust" by relying on eBay's reputation. Rather, the foreign collectible store would have to establish its *own*, *independent reputation* within the eBay community. That is the essence of a person-to-person system, and it is unlike anything disclosed in the '051 patent.

2. MercExchange's "fraud" evidence shows that eBay is not the '051 trusted intermediary.

MercExchange's own evidence proves beyond any dispute that eBay is not the '051 trusted intermediary. MercExchange emphasizes that buyers and sellers are able to commit fraud, taking advantage of the fact that eBay does *not* ensure the bona fides of the goods, add value to the description of the item, transfer ownership, or ensure that the buyer pays as promised. MercExchange quotes the Federal Trade Commission, which states that "'Complaints about person-to-person on-line auctions is one of the largest categories of complaints we receive.' The complaints focus on things like goods not received and the sale of copies as the real thing." (Phelps Dec. Ex. S at E0346977); (Phelps Dec. Ex. Y at 4 ("The overwhelming majority of (auction fraud) complaints we receive have been for failure to deliver merchandise.")). Because eBay is not the '051 trusted intermediary, "things do go wrong" between buyers and sellers, which is the inevitable result of having "ordinary people *do business directly with each other* from remote points around the globe." (Phelps Dec. Ex. Z at 5). "Numerous [eBay] users have complained

over the years of sellers cashing money orders without delivering goods." (Phelps Dec. Ex. R at 14).[6]

Of course, eBay cooperates with authorities—and does its best to help them—when users defraud others on the eBay system. This fact merely emphasizes that eBay assumes the best in people *ahead of time*, unlike the '051 trusted intermediary. Rather than assuming the best in people, like eBay, the '051 patent presumes the *worst*. Thus, '051 trusted intermediary monitors every transaction for fraud *in advance*. The '051 trusted intermediary, which adds value to the description of the item, vouches for the bona fides of the goods, and transfers ownership, is, like any other retailer, responsible for the goods sold on its site. Buyers need not worry that the goods will not be delivered, because the '051 patent trusted intermediary "transfer[s] ownership of the item." (*Markman* Order at 12). Buyers need not worry that the goods will be misdescribed, because the '051 patent trusted intermediary "add[s] value to the description of the item." (*Id.*) Thus, the '051 trusted intermediary provides for a finality of transaction that permits rapid relisting, reselling, and, as the specification repeatedly emphasizes, speculation. Indeed, the only entity likely to succeed at fraud in the '051 claims is the trusted intermediary itself. Of course, the heavy security of the '051 patent comes at an overwhelming, unnecessary price—the system is neither efficient nor scalable, and neither Woolston nor anyone else has implemented it.

3. eBay's "Feedback Forum," which is the opposite of the '051 approach, is a feature that only a person-to-person system would have.

In contrast to MercExchange, eBay's founder, Mr. Omidyar, wanted to create a personto-person system in which buyers

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[6] Contrary to Mr. Woolston's expectations, the eBay philosophy has been largely successful. MercExchange's own evidence indicates that "by some measurements, fraudulent sales on eBay are less than one one-hundredth of 1 percent." (Phelps Dec. Ex. CC at 1).

and sellers relied on *each other*—not eBay—in conducting their business. Thus, he conceived of an elegant and simple solution, the "Feedback Forum":

> His answer was eBay's now famous "feedback forum," a rating system that records the reputation of all eBay members—buyers and sellers—in a highly visible area of the site. The company's feedback system is simple. An eBay user receives one point for every positive comment left by another member; no points for a neutral comment; and a point is subtracted for every negative comment. Besides the point system, eBay users submit more descriptive comments about their experiences with other parties in transactions—everything from "Great deal. Prompt shipping" to "Sent me a broken product. They won't respond to my e-mails." Likewise, sellers often praise or ding buyers for prompt or delayed payments.

(Phelps Dec. Ex. L (Wingfield at 1)). Mr. Woolston, who claims credit for a wide variety of Internet innovations that appear nowhere in his patent applications, now alleges that "Feedback Forum" idea is Woolston's idea too. Of course, the '051 patent nowhere mentions such a concept, which makes sense *only in a person-to-person system.*

Although eBay does not rate its users, MercExchange argues that eBay is responsible for posting user comments "accurately" so "that users can properly evaluate other users." (Merc. Br. at 39). MercExchange's own evidence, submitted in opposition to eBay's motion for summary judgment, acknowledges that the "Feedback Forum" is comprised solely of information generated *by the users, about other users,* without any representation from eBay about its accuracy:

> eBay cannot engage in the practice of reviewing the feedback for accuracy. If we did so, we would risk being legally responsible for any defamatory remark in feed-

> back, much like a newspaper. We would not be able to operate a feedback system in these circumstances, and are therefore unable to address situations where negative feedback may be unwarranted or inaccurate.

(Phelps Dec. Ex. U at 4). In short, eBay's "FeedBack Forum" is exactly the *opposite* of what Woolston envisioned and described.

Nevertheless, MercExchange also argues that eBay has become an "active intermediary that will shield the good users from the bad," (Merc. Br. at 40), and emphasizes that the eBay User Agreement "states that it will suspend users that have a net —4 feedback rating." (Palmer Dec. ¶36). Once again, MercExchange misstates eBay's role. eBay users, *not eBay*, are solely responsible for feedback. By submitting feedback, in essence, eBay users vote to determine who stays, and who goes, from the system.

4. MercExchange's BillPoint and PayPal arguments are red herrings—the buyer, not eBay, is responsible for paying.

Buyers and sellers need not worry about receiving payment in the '051 system because the trusted intermediary is responsible for transferring ownership and payment. In contrast, as set forth above, eBay's person-to-person system does *not* ensure either transfer of ownership or payment. Nonetheless, MercExchange states that "in many cases, eBay even consummates the transaction by intermediating payment from the buyer to the seller through eBay Payments, which uses Billpoint, PayPal or similar electronic payment technology." (Merc. Br. at 37). Once again, MercExchange is attempting to confuse the Court.

The winning bidder, not eBay, must decide whether to honor his agreement and pay, and the winning bidder, not eBay, decide whether to pay the seller by cash, check, PayPal, or BillPoint. The buyer makes the decision to pay, and even

buyers and sellers who use PayPal and BillPoint often correspond after the bidding and negotiate as they see fit. Even when a winning bidder decides to use BillPoint or PayPal (an independent company recently purchased by eBay) those services are merely ways the winning bidder decides (on his own) to pay, like putting a check in an envelope, attaching a stamp, and dropping the payment off at the United States Post Office. Neither eBay, BillPoint, PayPal, nor the U.S. Postal Service ensure that the winning bidder will pay the right amount, or even will pay at all—but Billpoint, PayPal, and the U.S Postal Service deliver whatever the winning bidder decides to send. McFarland Dec. Ex. 2 (eBay User Agreement 13.1 ("[W]e have no control over . . . the ability of buyers to buy items. We cannot ensure that a buyer or seller will actually complete a transaction.")). Thus, as Merc-Exchange's own "evidence" notes, "the buyer and seller must *independently arrange for the shipment of and payment for the item.*" (Phelps Dec. Ex. EE at 12). *See also* Phelps Dec. Ex. D ("In these kinds of auctions it's up to the high bidder and the seller to contact each other...after the auction to finalize the purchase and arrange payment and delivery."). *See Stoner*, 56 U.S.P.Q. 2d at 1854 (rejecting argument that Billpoint makes eBay "an active participant in the sale of auctioned goods and services").

5. MercExchange's erroneous argument that eBay is the "world's largest network of pawn shops" proves eBay's point.

MercExchange argues that eBay is the "world's largest network of pawn shops" and contends that "eBay stores" has somehow converted eBay into the '051 patent trusted intermediary or trusted network. MercExchange emphasizes that one Virginia Beach pawnshop, Nathan's, sells on eBay, but once again, MercExchange's own evidence proves eBay's point. The bidders in the '051 patent system do not need to trust a distant, unknown pawn shop—they put their faith in

the trusted intermediary, and the fact that their local, known and trusted consignment nodes stand behind it. In fact, the bidders in the '051 patent system do not even need to know anything about the distant pawn shop, (*i.e.*, "an unknown Russian collectable shop" '051 col. 18:60), because the '051 trusted intermediary puts its own reputation on the line, transfers ownership, and adds value to the description of the goods, which "allows the Russian collectible store to receive the business good will of the electronic collectible market place of the present invention to establish immediate trust with prospective electronic customers." '051 col. 19:1-5.

Unlike the '051 trusted intermediary, eBay's person-to-person system does *not* vouch for Nathan's pawn shop or any other—rather, Nathan's is like any other seller on eBay. Nathan's must generate its *own reputation and goodwill*, independent of anyone else in the system. It is responsible for describing its own goods, transferring ownership of its own goods, and consummating its own transactions, just like any other party. (Phelps Dec. Ex. F to Ex. VV ("*Seller assumes all responsibility for listing this item. You should contact the seller to resolve any questions before bidding.*") (emphasis added)). MercExchange's "evidence" is nothing more than Nathan's *own advertisement*. "We are fully licensed, bonded, and legitimate pawnbrokers. There have been pawnbrokers in the Nathan's family since 1894." (Phelps Dec., Ex. D to Ex. V). Nathan's, like *every other* "eBay store" is solely responsible for building its own reputation, just like everyone else in the eBay community.

6. eBay Motors highlights the fundamental differences between eBay and the '051 patent's trusted intermediary.

MercExchange's discussion of eBay Motors crystallizes the fundamental difference between eBay and the '051 trusted intermediary. Where a good is expensive—such as a motor vehicle—individuals are less inclined to take the "leap of

faith" required to enter into a less expensive person-to-person Internet transaction. eBay's "Vehicle Assurance Program" warns the buyer and the seller about the risks and encourages them to seek third-party assistance, but does *not* convert eBay into the '051 trusted intermediary, because eBay does not vouch for the buyer, seller, or vehicle or even know whether the buyer and seller follow through with payment and shipment after the auction closes.

> The eBay Assurance Program doesn't replace common sense . . . check on the eBay reputation of the person you're trading with. . . . If you're buying, ask enough questions so you can bid with confidence and commitment. Once the auction closes, follow through immediately to arrange the most secure way to exchange the funds and the vehicle.

(Phelps Dec. Ex. II at I). The program recommends that buyers and sellers consider *third-party* vehicle inspection service, provided by Vehicle Care Management Corp. (http//vcmc.rk.net), and a *third-party* payment escrow service, provided by Escrow.Com. In the end, the transaction is *entirely* up to the buyer and the seller, and eBay does not make *any* representation about the goods, ensure payment, or transfer ownership. If eBay were the '051 trusted intermediary, buyers and sellers would not use these third-party services at all. *See Stoner*, 56 U.S.P.Q. 2d at 1854 (rejecting argument that escrow services make eBay "an active participant in the sale of auctioned goods and services").

D. The irrelevant Palmer declaration cannot defeat summary judgment.

The Palmer declaration ignores the Court's Markman ruling, and thus cannot create any issue of fact. *See Wiener v. NEC Elec., Inc.*, 102 F.3d 534, 542 (Fed. Cir. 1996) (affirming summary judgment of non-infringement and holding an expert's declarations which "rest on an incorrect claim inter-

pretation...do not create a factual dispute."). Instead of following the *Markman* ruling, the Palmer declaration argues that eBay does not want to be seen as a dishonest company, and argues that eBay even sued other parties for "impugn[ing] its reputation." (Palmer Dec. 132). The Palmer declaration rewrites Mr. Woolston's application as inventing the idea that "trust may be built by having a system build its reputation." (Palmer Dec. ¶70). With that erroneous premise, the Palmer declaration argues that eBay is the '051 trusted intermediary because "eBay privacy agreement say [sic] `no spamming by other users," (Palmer Dec. ¶32), and explains that "users can trust eBay to enforce this [no-spam] policy to protect them." (Palmer Dec. ¶38).

The Palmer declaration also contends that eBay infringes because eBay keeps credit card numbers "in confidence" and does not distribute them publicly, or post them on the Internet. (*Id* ¶ 59). Furthermore, the Palmer declaration argues that eBay is the '051 trusted intermediary because it allows users to "enter descriptions of the item" in "colorful and attractive formatting"—even though eBay, unlike the '051 trusted intermediary, indisputably does not verify or alter the description, vouch for it, or have any idea whether it is accurate. (*Id.* 153). *See also Stoner*, 56 U.S.P.Q. 2d at 1853 ("The undisputed facts establish that the descriptions of the goods and services auctioned over the eBay service are created entirely by the sellers."); *Gentry*, 99 Cal.App.4th 816; *Hendrickson*, 165 F.Supp.2d 1082.

The Palmer declaration irrelevantly notes that the '051 patent has "users use a username and password to enter the system" and then argues that eBay is the '051 trusted intermediary because "clearly, eBay uses usemames and passwords." (Palmer Dec. ¶¶ 65). The Palmer declaration also argues that eBay is the '051 trusted intermediary because the eBay user agreement asks buyers and sellers to honor their bids and their promises—which yet again highlights that

eBay does not transfer ownership or perform the other functions of the '051 trusted intermediary.

Every Court to consider this issue, including *Stoner*, *Gentry*, and *Hendrickson*, has correctly held for eBay without the burden and expense of a trial. Because eBay indisputably is a person-to-person system, summary judgment of noninfringement is appropriate.[7] *See generally Bell Ad. Network Servs., Inc. v. Covad*, 262 F.3d 1258, 1279 (Fed. Cir. 2001).

III. SUMMARY JUDGMENT OF '051 PATENT UNENFORCEABILITY (INEQUITABLE CONDUCT).

A. MercExchange argues irrelevant generalities, and ignores the governing law.

MercExchange's own opposition papers also demonstrate that summary judgment of unenforceability is required. MercExchange argues at length about generalities, citing irrelevant cases that do not involve withholding material prior art, and contending that summary judgment is rarely appropriate in inequitable conduct cases.[8] MercExchange suggests that no

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[7] The Palmer declaration merely recites hearsay articles and other publications, interspersed with pure legal argument, and conclusory statements that eBay infringes. *See Novartis Corp. v. Ben Venue Labs.*, 271 F.3d 1043, 1050-51 (Fed. Cir. 2001) ("[A] party does not meet this evidentiary threshold merely by submitting the affidavit of an expert who opines that the accused device meets the claim limitations."). Thus, the Court need not consider the Palmer declaration. In addition, eBay believes that Dr. Palmer is not qualified to offer an expert opinion in this case, for the reasons set forth in eBay's opposition to MereExchange's motion for summary judgment (May 17, 2002).

[8] *See Baker Oils Tools v. Geo Vann*, 828 F.2d 1558, 1565-66 (Fed. Cir. 1987) (noting that the district court had inferred intent to deceive the PTO regarding the invention date because the attorney removed dates from documents that he submitted to the PTO. Because MPEP 2308.02 allows a party to remove dates in these circumstances, the Court concluded that a trial was necessary.); *KangaROOS v. Caldor, Inc.*, 778 F.2d 1571, 1574 (Fed. Cir. 1985) (considering whether a patentee was entitled to an earlier priority date and noting that the district court had analyzed the *wrong pat-*

lawyer would ever commit inequitable conduct, and contends that such claims are *per se* "offensive"

* * * *

ent application in reaching the decision: "On motion for summary judgment of invalidity of the divisional because of fraud in its prosecution, the critical issue was decided based on analysis of the claims of the wrong patent."); *Go Med.Indus.Pty. Ltd v. C.R. Bard, Inc.*, No. 99-1397, 2000 WL 1056063 (Fed. Cir. 2000) (involving a genuine dispute over when a party learned of a defect in its patent prosecution).

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., HALF.COM, INC.,
AND RETURNBUY, INC.,
Defendants.

DEFENDANTS' MOTION FOR EXPEDITED RELIEF IN VIEW OF WOOLSTON'S NEW STATE BAR COMPLAINT AGAINST EBAY'S EXPERT, WHO HAS A NEW YEAR'S EVE DEADLINE TO RESPOND.

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THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

I. INTRODUCTION.

Although MercExchange has a fully-briefed "motion to disqualify" eBay's expert, Commissioner Gerald Mossing-

hoff, pending in this Court, Mr. Woolston has attempted to circumvent this Court's pending ruling by filing a *pro se* complaint with the Virginia State Bar seeking discipline and disbarment of Commissioner Mossinghoff, who has never met Woolston, and had never even heard of him before this lawsuit. Woolston hopes to intimidate Commissioner Mossinghoff and prevent him from testifying in this case, knowing that eBay has no right to submit information to the State Bar, and that many of the relevant pleadings and evidence in this case are "under seal." Commissioner Mossinghoff must respond to Woolston's formal disciplinary complaint no later than New Year's Eve, only ten business days from now.[1]

Neither eBay nor Commissioner Mossinghoff will be able to respond effectively to Woolston's holiday-season State Bar assault unless the Court grants expedited relief in the form of an order that: (1) addresses certain factual and legal issues which are subject to this Court's jurisdiction, set forth below, and (2) permits eBay to provide a copy of the Order and the pleadings in this case to the Virginia State Bar, and to Commissioner Mossinghoff's current employer, which Woolston has also attacked. The State Bar has no familiarity with this case, no expertise in patent law, and *no ability to adjudicate MercExchange's March 2002 approval of, and consent to, Commissioner Mossinghoff's expert testimony under this Court's Protective Order*. Therefore, unless the Court grants immediate relief, both eBay and Commissioner Mossinghoff,

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[1] Woolston secretly filed his Complaint with the State Bar on November 26, *without serving either eBay or Commissioner Mossinghoff* MercExchange's first "notice" to eBay of Mr. Woolston's State Bar attack was a passing comment at the end of the Robertson declaration, which eBay received late on Friday, December 13, 2002. Commissioner Mossinghoff did not learn of the State Bar Complaint until Thursday, December 12, 2002. As a result of Woolston's decision to keep his State Bar Complaint secret, any delay in granting the relief requested in eBay's motion will cause eBay and Commissioner Mossinghoff irreparable harm in responding effectively in the State Bar by the required New Year's Eve deadline.

a universally-respected, lifelong civil servant who served the PTO as a Patent Examiner even before Woolston was born, will suffer irreparable harm from Mr. Woolston's one-sided presentation of false and misleading arguments.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Dec. 20, 2002]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., et al.,

Defendants.

ORDER AND OPINION

On December 16, 2002, the court received defendants' Motion for Expedited Relief in View of Woolston's new State Bar Complaint Against eBay's Expert, who has a New Year's Eve Deadline to Respond. This motion seeks expedited consideration of the plaintiffs Motion to Disqualify Gerald J. Mossinghoff, one of the defendants' experts in this case, in light of a bar complaint filed against Mr. Mossinghoff by Mr. Woolston, the inventor of the patents at issue. The defendants are seeking an order from this court that (1) addresses certain factual and legal issues which are subject to this court's jurisdiction; and (2) permits eBay to provide a copy of the order and the pleadings, which have been filed under seal, to the Virginia State Bar, and to Mr. Mossinghoff s current employer, which Woolston has also attacked. Based on the importance of this matter, as well as the New Year's Eve deadline, the court grants the defendants' Motion for Expedited Consideration. However, the court makes it clear that it is not granting this Motion based on any sense of urgency in the matter as it pertains to this case. Rather, the court grants the defendants' Motion so that Mr. Mossinghoff may respond to Mr. Woolston's Virginia Bar complaint.

* * * *

aware of the outcome of the '286 application.

During the prosecution, different examiners reviewed the '014 and the '021 applications. Demetra Smith reviewed the '021 application and Melanie Kemper was assigned the '014 application. During the review of the '014 application, Examiner Kemper found prior art which she believed rendered certain claims unpatentable. The crux of the defendants' argument is that the prior art used by Examiner Kemper to reject the claims of the '014 patent was not disclosed to Examiner Smith in her review of the '021 patent even though John Phillips, the attorney who prosecuted these patents for Mr. Woolston,[2] was under an obligation to reveal this allegedly material information. The defendants submitted the expert declaration of Gerald J. Mossinghoff, stating that in his opinion, Mr Phillips' conduct was inequitable and in violation of the PTO's regulations. The court determined that the defendants had properly pled the defense and found that pursuant to Federal Rule of Civil Procedure ("Rule") 15(a), the defendants would be permitted to amend their answer. The court also found that there was sufficient evidence for the affirmative defense to survive a Rule 12(b)(6) Motion to Dismiss. Moreover, the court declined to strike Mr. Mossinghoff's opinion, holding that it was an evidentiary issue that would be best handled at the summary judgment stage. As a result, the defendants' Amended Answer was filed.

II. Plaintiff's Motion to Disqualify Mr. Mossinghoff

The plaintiff filed its Motion to Disqualify Mr. Mossinghoff based on an alleged conflict of interest. According to the pleadings, in 1999 Mr. Woolston retained Charles Gholz with the

* * * *

[2] John Phillips, at the time, was associated with the law firm of Fish and Richardson, PC.

itself. Moreover, Mr. Mossinghoff is not being asked to form an opinion on any aspect of the '286 application. There is nothing in the record to suggest that even if Mr. Mossinghoff was privy to confidential information about the '286 application, that it would have been relevant in his role as an expert in this case. Finally, the fact that Mr. Gholz was asked to consolidate all of Mr. Woolston's patent applications does not change this analysis. The act of asking the PTO to consolidate applications does not prove to this court that Mr. Gholz worked on those patent applications thereby requiring disqualification of Mr. Mossinghoff. In fact, this court does not believe that Mr. Gholz would be disqualified from testifying as an expert on this ground. Therefore, the court finds that the matters are not substantially related for purposes of disqualification.

2. The plaintiff has consented to Mr. Mossinghoff as an expert

Furthermore, even if the matters were substantially related, the plaintiff has consented to Mr. Mossinghoff as an expert for the defendants in this case based on their failure to object to his involvement earlier. On March 29, 2002, the defendants first listed Mr. Mossinghoff and his law firm in a required expert disclosure. Mr. Mossinghoff was identified as an expert in patent law issues. The plaintiff did not raise any objection to Mr. Mossinghoff or Oblon Spivak at this time. On May 16, 2002, the defendants provided the plaintiff with Mr. Mossinghoffs curriculum vitae, and once again, the plaintiff did not object, although the plaintiff did raise an objection to another expert based on conflict of interest. Again on June 5, 2002, the defendants provided the plaintiff with additional information so that it could undergo a conflict review. The plaintiff still did not object to Mr. Mossinghoff following its conflict review. It was not until Mr. Mossinghoff filed an expert declaration with respect to the defendants' inequitable conduct defense that the plaintiff

* * * *

first raised the issue of conflict of interest. The timing of this Motion to Disqualify appears to be purely for strategic purposes, which this court has held is a practice that "courts should not be oblivious to." *Tessier*, 731 F. Supp. at 729 ("the Fourth Circuit has cautioned against a mechanical application of the Virginia Code of Professional Responsibility to [these] situations."). The plaintiff was informed that the defendants intended on using Mr. Mossinghoff as an expert, and it knew what patents and patent applications were at issue in the case. Had the plaintiff believed that Mr. Mossinghoff s affiliation with the Oblon Spivak firm presented a conflict of interest based on Mr. Woolston's prior dealings with Mr. Gholz, the plaintiff had over six months to raise the issue. Therefore, even if the matters were substantially related, the plaintiff's failure to raise the issue of conflict of interest earlier resulted in their consent to Mr. Mossinghoff as the defendants' expert.

D. Sealed pleadings to Virginia State Bar

Finally, the court grants the defendants' request to allow Mr. Mossinghoff to submit copies of the pleadings in this matter, as well as any necessary pleadings from the defendants' Motion for Leave to Amend Answer, to the Virginia State Bar in response to Mr. Woolston's Bar complaint. The pleadings may also be provided to Mr. Mossinghoff s current employer to the extent necessary for this Bar complaint. These pleadings are only to be used for an in camera review and shall not become open to the public.

III. Conclusion

For the reasons stated above, the court GRANTS the defendants' Motion for Expedited Review and DENIES the plaintiff's Motion to Disqualify Mr. Mossinghoff. The other issues raised by the plaintiff in that Motion concerning the exclusion of purportedly late-filed expert

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Jan 13, 2003]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., et al.,

Defendants.

ORDER AND OPINION

Presently before the court is a Motion to Reconsider filed by MereExchange, Inc. ("plaintiff") based on this court's October 21, 2002 Order and Opinion granting in part eBay, Inc.'s ("defendant") Motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 ("the '051 patent") are invalid for an inadequate written description. Based on the briefs submitted by the parties, including the briefs from the original Motion for Summary Judgment, the court denies the plaintiff's Motion to Reconsider.

I. Factual Background

On October 21, 2002, this court issued an Order and Opinion on the three remaining Motions for Summary Judgment filed by the parties ("October 21 Opinion"). In this Opinion, the court granted in part and denied in part defendant eBay's Motion for Summary Judgment that all claims of the '051 patent are invalid for an inadequate written description; granted in part and denied in part the plaintiff's Cross-Motion for Summary Judgment that all claims of the '051 patent are

valid for an adequate written description; and denied defendant Half.com's Motion for Summary Judgment that claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 ("the '176 patent") are invalid pursuant to 35 U.S.C. §§ 102(a) and/or 102(g). On November 1, 2002, the plaintiff

* * * *

III. Debiting/Charging a Seller's Account[1]

The plaintiff argues that based on the Joint Declaration of its experts, Jonathan W. Palmer and Alfred C. Weaver, a dispute exists over a material fact, and thus, granting summary judgment was improper. While the plaintiff is correct in that this declaration does support its contention that there is an adequate written description of debiting/charging a seller's account a commission or fee in a person-to-person based auction system, this declaration was prepared before the court's Markman Opinion, which greatly altered the plaintiff's version of what the patent claimed. Most importantly, the court held that the auction system envisioned by the inventor was "a process over a trusted network, or with a trusted intermediary," and not a person-to-person based system. *See Markman* Opinion, pp. 12-13. The plaintiffs experts proceeded under the impression that the patent envisioned a person-to-person auction system, without a trusted intermediary. Given the court's interpretation of the patent claims, the experts' declaration submitted by the plaintiff no longer supports its argument that the written description adequately describes the process of debiting/charging a seller's account a commission

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[1] There appears to have been some confusion over whether the court October 21 Opinion involved both debiting and charging a seller's account a commission or fee, or just debiting the account. The court meant to address both of the terms together, just as it did in its October 18, 2002 Order and Opinion. ("*Markman* Opinion"). *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370, 116 S. Ct. 1384 (1996). However, in order to be crystal clear in this Order and Opinion, the court will use both terms throughout.

or fee. *See Wiener v. NEC Electronics. Inc.*, 102 F.3d 534, 542 (Fed. Cir. 1996) (affirming summary judgment of non-infringement and rejecting an expert's declarations which "rest on an incorrect claim ~~interpretation~~ . . . [and] do not create a factual dispute."), *abrogated on other grounds by, Cybor Corp. v. FAS Technologies. Inc.*, 138 F.3d 1448 (Fed. Cir. 1998). As such, the plaintiff

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY INC., HALF.COM, INC., AND RETURNBUY,
Defendants.

EBAY'S MOTION TO ENFORCE JUDGE FRIEDMAN'S SEPTEMBER 19 AND NOVEMBER 22 ORDERS, AND OPPOSITION TO MERCEXCHANGE'S DECEMBER 27 MOTION TO REOPEN FACT DISCOVERY

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RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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attorneys did, and (2) eBay did not waive its objections to inappropriate questions embedded with multiple false assumptions.

No court should punish Mr. Omidyar under these circumstances, or allow MercExchange to hypocritically attack Mr. Omidyar without explaining what happened during the Woolston deposition. Otherwise, the Court will endorse a double-standard that defies due process, and perpetuates the harm that eBay and its witnesses have already endured. Woolston is the alleged inventor and the central witness in this case, but MercExchange's lawyers—one of whom attended the Omidyar deposition—made blatant coaching objections literally *hundreds* of times, completely disrupting and derailing his deposition. For example, MercExchange's attorneys repeatedly coached Woolston to testify that he could not answer basic questions about his own patent application and claims because he is "not an expert." (McFarland Decl. Ex. K (Woolston TR 383:6-19)). After nearly *fifty* such improper "expert" coaching objections, eBay stipulated that the objection would be forever preserved, hoping to prevent further disruption. (*Id.* at 385:14-386:14 ("Counsel, I'll stipulate that you have not designated him as an expert to testify and provide expert opinion testimony; all right? Please stop making the objection. It's inappropriate and wasting our time.")).

MercExchange's attorney accepted the stipulation, but continued to make the coaching objection another *two-hundred seven (207) additional times*. (*See, e.g., id.* at 435:5-447:4; 466:11-467:2; 531:1-21; 552:11-554:22; 567:12-568:2; 577:4-578:5; 585:2-590:13). Even when eBay reminded MercExchange of the stipulation and implored Mr. Cawley to stop coaching, Mr. Cawley persisted. *See, e.g., id.* at 531:12-15 ("You continue making that particular objection and I told you I think it's unnecessary and I think I've made that clear. Please, you don't have to waste our time with that."); *id.* at 577:12-16 ("Mr. Cawley, I've told you over and over and

over, that objection is unnecessary, and you continue to make it and you continue to waste time. Please don't do that anymore."); *id.* at 356-57:22-357:5 ("Mr. Cawley, I'm going to ask you to keep your objections to a legal basis. If you have a legal objection to make, make it; all right? Otherwise, please don't either coach the witness or say additional information that's unnecessary."); *Id.* at 386:15-18 ("I don't want you to make objections that are unnecessary and intended, at least in my view, to coach the witness. That's what I'm asking you to stop doing.").

MercExchange's rote incantation of its coaching objections were absurd. At one point, when eBay pointed to a document and asked Woolston simply "Do you, see that?" MercExchange's counsel repeated its prior objection that the question *was beyond the scope of the 30(b)(6) topics and called for an expert opinion.* (*Id.* at 598:10-19 (repeating objections asserted at 596:5-8: "This goes beyond the scope of the 30(b)(6) designations. You're asking him to give expert testimony.")).

At times, MercExchange made up nonsensical grounds for objecting as it went along. For example, when eBay asked inventor Woolston simply *whether he read his own patent* before he came to testify as a 30(b)(6) witness, Mr. Cawley objected that the simple question was "unfair":

> Mr. Woolston. I'm asking a simple question: Did you read your patent before you came here to testify on behalf of the company as a designee under the Rule 30(b)(6)?
>
> MR. CAWLEY: Objection. There's no designation for him to interpret the claims under 30(b)(6).
>
> MR. RANDALL: What's your objection?
>
> MR. CAWLEY: My objection is it's not a fair 30(b)(6) designation, and therefore, your question is unfair, and I'm objecting—

MR. RANDALL: You're objecting that it's unfair?

MR. CAWLEY: Yes.

MR. RANDALL: Make a legal objection; okay?

(*Id.* at 362:9-363:3)). These were not isolated incidents. At another point, Mr. Cawley delayed the deposition to coach Woolston and "*point out, of course, that I assume counsel for eBay will be taking the depositions of the various experts that have been identified by MercExchange in this case.*" (*Id.* at 356:16-21)). That is not a legal objection, but is coaching and disruption, plain and simple.

At times, Mr. Cawley did not even *attempt* to mask his coaching, and directly told Mr. Woolston how to answer the question:

> MR. CAWLEY: Objection. There's another little built-in thing he put in there, not very subtly, I might add. Don't answer that question, to the extent that the premise is incorrect or to the extent that to answer that would cause you to indicate a communication to you from attorneys or from you to attorneys.

(*Id.* at 343:6-12)).

At another point, after making his ludicrous "expert" coaching objection—which eBay had already stipulated was preserved forever—Mr. Cawley launched into a bizarre diatribe and attempted to bait Mr. Randall, who had raised his hands in exasperation at Mr. Cawley's repeated, ludicrous, and preserved "he's not an expert" coaching objection:

> MR. CAWLEY: I object. He's not been designated as an expert in any topic.
>
> MR. RANDALL: I'm asking for his understanding.
>
> MR. CAWLEY: You're asking for an opinion. Don't raise your hand to me because these are improper questions.

> MR. RANDALL: What's the legal basis for your objection?
>
> MR. CAWLEY: I tried to say and you held up your hand trying to prevent me from objecting. I have to object because it's an improper question. I'm not saying he can't answer because he's answering subject to my
>
> MR. RANDALL: I'm going to ask you to state the legal objection only. If you say it's an improper question, fine, I understand if you object you think it's improper, but state the legal grounds.
>
> MR. CAWLEY: I was stating to the preemptory way you were holding up your way to prevent me from objecting. This is beyond the scope of the 30(b)(6) deposition. And secondly, you're asking him to voice an opinion, and he hasn't been designated as an expert in any area to voice opinions. I'm sure you'll be taking those experts' depositions.

(*Id.* at 592:11-593:15)).

When eBay requested additional time to depose Mr. Woolston—the central figure in this case, who had successfully blocked eBay's examination—Judge Bradberry first granted eBay an additional day, then changed his mind and held that the deposition was closed because Mr. Woolston had "testified" for four days.[9] The Court said nothing about MercExchange's deposition misconduct, and thus, rewarded MercExchange's misbehavior. MereExchange now asks the Court to apply a blatant double-standard and order entirely new depositions of third-party Pierre Omidyar and eBay in-house counsel John Monahan, simply because eBay's counsel at-

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[9] On April 16, 2002, Woolston was examined by Mr. Ebertin on particular topics, including conception and reduction to practice and dozens of declarations, as a 30(b)(6) designee. On June 18-20, 2002 Woolston testified in his individual capacity and was designated by MercExchange regarding all remaining 30(b)(6) topics addressed to MercExchange.

tempted to preserve the attorney-client and work-product privileges and objections to the questions that contained numerous false and misleading assumptions. No. deposition defense is perfect, but the efforts of Mr. Omidyar's counsel were made in good faith, and do not begin to approach the misconduct that MercExchange perpetrated at the Woolston deposition.[10]

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[10] This is not the first time that MercExchange has deceptively asked the Court to create a double-standard in this case. MercExchange served over a thousand RFAs, including RFAs asking eBay to admit the truth of *every statement* in documents that were 529 pages long, 116 pages long, 156 pages long, 137 pages long, 72 pages long, 88 pages long, 81 pages long, and 92 pages long. Judge Bradbeny ordered eBay to respond, requiring eBay to review thousands upon thousands of separate statements. Thereafter, when eBay asked MercExchange to admit the truthfulness of every statement in documents that were 72 pages long and 27 pages long, MercExchange attempted to deceive the Court by falsely stating that it had asked only that eBay "authenticate" the documents: "Your Honor, I am really amused by the outrage expressed by Mr. McFarland over our reluctance to answer a request for admission that asks us to admit the truth of a 72-page document, of all of the statements in that document. We filed requests for admissions in this case where we merely asked them to admit to the authenticity of their documents, and they objected and said it was burdensome. For them to come here to you today and to say that it is unreasonable for us to refuse to admit or deny the truth of every single statement in a 72-page document when they were right up here just a few weeks ago saying it's burdensome for them to even admit the authenticity of their own documents is amazing to me. The reality is that we will never admit to the truth or accuracy of every single statement in a 72-page document." July 26, 2002 Hearing Tr (July 26, 2002) 16:9-23; 17:6-12.

When eBay noted that MercExchange had required eBay to admit the truthfulness of every statement in documents that were hundreds of pages long Mr. Stillman, remarkably, denied it: "I mean, notwithstanding the representations of counsel, I promise you there has never been any example we have admitted to the other side where we asked them to admit the truth of all statements of hundreds of pages of documents or even 10 pages of documents, to my recollection." Hearing Tr., 20:11-15 (emphasis added). Mr. Stillman's "promise" was simply not true, and it induced the Court to enter plainly inconsistent and one-sided orders, severely preju-

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dicing eBay in this case. *See* Plaintiff MercExchange L.L.C.'s Rebuttal Brief in Further Support of its Fourth Expedited Motion to Compel Discovery, at 13 (Filed May 2, 2002) ("Finally, eBay goes to great lengths to argue how difficult it would be for it to admit the truthfulness of various statements that are the subject of the requests. Of course, these are the very same arguments that eBay made before this Court, and which the Court rejected.").

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY INC., a Delaware Corporation, HALF.COM, INC.,
a Pennsylvania Corporation, and RETURNBUY, INC.,
a Delaware Corporation,
Defendants.

EBAY INC. AND HALF.COM, INC.'S MOTION TO STRIKE EXTRANEOUS STATEMENTS IN MERCEXCHANGE AND RETURNBUY'S PROPOSED CONSENT ORDER AND JUDGMENT

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED

CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT- FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

I. INTRODUCTION.

eBay respectfully requests the Court strike the extraneous statements included in MercExchange's proposed "Consent

Judgment and Order," filed with the Court on January 8, 2003.[1] MercExchange and ReturnBuy, an insolvent company that is now in the midst of an asset sale, have chosen to settle, and eBay neither challenges, nor asks the Court to interfere with, their right to do so.[2] However, the Court should reject the extraneous statements in MercExchange's proposed "Consent Judgment and Order," which extend beyond the rights of MercExchange and ReturnBuy and thus run afoul of due process, public policy, and fundamental fairness.

- First, MercExchange's proposed Consent Judgment gratuitously states that the '265 patent is valid and enforceable, without asking the Court to undertake any consideration of the merits. Because patents are property rights held against the public as a whole, not merely against defendants to an infringement action, the Supreme Court has stressed that public policy dictates careful determination of patents' validity and enforceability. Nonetheless, MercExchange asks the Court to state that the '265 patent is valid and enforceable, not on proof and consideration, but based merely on a hearsay "confession" purchased from an insolvent company. Public policy dictates rejection of such terms.

- Second, the Consent Judgment and Order addresses the rights of third-parties, in violation of due process and public policy. MercExchange and insolvent ReturnBuy were free to choose the terms of their settlement, but they cannot ask the Court to enter a judgment expanding the scope of the claims beyond the

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[1] Defendants provide a proposed order dismissing MercExchange's complaint against ReturnBuy, striking the improper extraneous holdings.

[2] MercExchange contacted ReturnBuy directly and concluded the negotiation and settlement without the involvement of ReturnBuy's prior litigation counsel of record, Cooley Godward and McGuire Woods.

Court's construction and enjoining third-parties who neither negotiated the agreement nor assented to be bound by its terms.

- Third, the Consent Judgment and Order endorses as true sham "confessions," fabricated in a settlement between two equally desperate companies. Insolvent ReturnBuy needed to extricate itself from litigation that has been blocking its liquidation and dissolution. Mr. Woolston, having lost the '051 patent already, and facing a summary judgment motion on another, sought "evidence" to bolster a failing lawsuit. Thus, MercExchange absolved ReturnBuy of any liability in return for a number of lay, hearsay "confessions" about legal issues, as well as an inflated royalty rate that insolvent ReturnBuy will never pay. The Court should not, and need not, endorse the sham confessions.

MercExchange and ReturnBuy have already executed Settlement and License Agreements setting forth all of the rights and obligations of those parties. The extraneous provisions in the Consent Judgment are improper; MercExchange is not entitled to a Court Order that violates public policy, due process, and fundamental fairness. Accordingly, eBay respectfully requests the Court strike the proposed Consent Judgment and Order's extraneous statements, and reserve comment until the issues are decided on the merits.

II. BACKGROUND.

MercExchange has planned to sue successful Internet businesses for years, long ago entering a series of self-dealing, sham "license" agreements which it hoped to offer as the foundation for its damages case.[3] For example, Mr. Wool-

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[3] In 1995, Pierre Omidyar and Thomas Woolston had two fundamentally different views of how to run a business on the internet. Mr. Woolston, an associate in a Washington D.C. law firm, sat down and wrote a

ston, negotiating with himself, entered into numerous contracts that Mr. Woolston now asks the Court to accept as arms-length transactions.

- October 8, 1999: Leftbid.com—with Mr. Woolston as a Director and Chief Technology Officer and General Counsel of its parent company—entered a license agreement with MercExchange—with Mr. Woolston as Managing Director;
- October 28, 1999: Aden—with Mr. Woolston as General Counsel and Chief Technology Officer—entered a license agreement with MercExchange—with Mr. Woolston as Managing Director;
- March 1, 2000: Navlet.com—with Mr. Woolston as President and CEO—entered a license agreement with MercExchange—with Mr. Woolston as Managing Director.

The ReturnBuy/MercExchange settlement is the latest twist on the strategy. With the '051 patent held invalid and further summary judgment motions pending, MercExchange contacted ReturnBuy (bypassing ReturnBuy's then-litigation counsel, Cooley Godward and McGuire Woods) and offered to settle.

ReturnBuy was deep in insolvency. (McFarland Decl. Ex. 1 (Benn Decl. ¶2)). By mid-December 2002, ReturnBuy's condition had become hopeless, and ReturnBuy's CEO, Walt Shill, had unsuccessfully spoken with dozens of entities in an effort to find a purchaser for the company or its assets. (*Id.*

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patent application describing his trusted intermediary system, and then went back to his law-firm work. Mr. Omidyar sat down and within a week wrote the software for a person-to-person auction system that became known as eBay. After Mr. Woolston left law-firm practice and failed to implement his trusted intermediary system in the marketplace, Mr. Woolston resolved to take on eBay in more familiar environs: at the patent office and in federal court.

¶¶2-3). With ReturnBuy insolvent, Mr. Shill concluded that he had a duty to liquidate the company for the benefit of its creditors. (*Id.* ¶3). After dozens of failures, Mr. Shill finally found a potential buyer. (*Id.* ¶2-3). However, Mr. Shill had to resolve the MercExchange litigation to proceed with the possible asset sale. (*Id.* ¶3).

Mr. Shill told MercExchange that ReturnBuy was in dire straights and planning to sell its assets. (*Id.* ¶4). MercExchange offered to drop the case against ReturnBuy in exchange for a "confession" and an accusation against eBay. (*Id.* ¶4); (McFarland Decl. Ex. 2 (Buroker Decl. Ex. 00) (Settlement Agreement) (Dec. 18, 2002)). ReturnBuy agreed, because it had reached a point of insolvency and was attempting to sell its assets. (McFarland Decl. Ex. 1 (Benn Decl. ¶4)).

Thus, MercExchange dropped any claim against ReturnBuy for past "infringement" of the '265 patent,[4] and Mr. Shill "confessed" that ReturnBuy had infringed the '265 patent. (McFarland Decl. Ex. 2 (Buroker Decl. Ex. 00) and Ex. 3 (Buroker Decl. Ex. PP) (License Agreement) (Dec. 2002)). MercExchange even insisted that non-lawyer Shill "confess" that the '051 patent was "valid"—contrary to the orders of the Court—and that all of the Woolston patents were "valid" and "enforceable." (McFarland Decl. Ex. 3 (Buroker Decl. Ex. PP)). MercExchange also extracted Mr. Shill's "confession" that eBay had "induced" and "contributed" to ReturnBuy's supposed "infringement" of the '265 patent claims. (McFarland Decl. Ex. 2 (Buroker Decl. Ex. 00)). Finally, MercExchange insisted that Mr. Shill agree to an exorbitant "license" of the '265 patent for the future—but ReturnBuy has no future. As would become clear later, MercExchange planned to argue to the Court and the media that the exorbi-

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[4] MercExchange's experts estimated the damages attributable to ReturnBuy for this period to be approximately $2.8 million. See (McFarland Decl. Ex. 4 (Expert Report of R. Troxel, Exh. D-3a)).

tant ReturnBuy "license" was evidence of the rate that eBay should pay.

MercExchange now asks the Court to enter the proposed "Consent Judgment and Order" bloated with extraneous, overreaching language. For example, the Consent Judgment and Order states that "the '265 patent is valid and enforceable." The Consent Judgment and Order also purports to extend the effect the settlement to third parties who neither negotiated it nor assented to its terms: "ReturnBuy further agrees and stipulates that . . . any persons in active concert or participation with them who receive actual notice of this judgment are permanently enjoined." Moreover, the Consent Judgment and Order expands the scope of this proposed injunction beyond the Court's construction of the '265 claims. The description of prohibited conduct makes no reference to the Court's Markman ruling, merely summarizing the '265 claim language and purporting to bar "any colorable variations thereof."

III. ARGUMENT.

A. Although Parties are Generally Free to Settle Their Claims Without Judicial Approval, The Court Must Scrutinize a Consent Decree Before Entry.

Generally, "federal courts have neither the authority nor the resources to review and approve the settlement of every case brought in the federal court system." *Caplan v. Fellheimer Eichen Braverman & Kaskey*, 68 F.3d 828, 835 (3d Cir. 1995). However, "certain designated types of suits, for instance consent decrees, class actions, shareholder derivative suits, and compromises of bankruptcy claims . . . requires [sic] court approval." *Id.* This is because a consent decree is "not simply a settlement between two parties." *In re Dalen*, 259 B.R. 586, 605 (W.D. Mich. 2001). "Rather, it is an order which implicitly, if not explicitly, approves a settlement which is incorporated into its provisions." *Id.* "Because it is

entered as an order of the court, the terms of a consent decree must also be examined by the court." *Smyth v. Rivero*, 282 F.3d 268, 280 (4th Cir. 2002), *cert. denied*, 123 S.Ct. 112 (2002). As the Sixth Circuit Court of Appeals aptly observed in *United States v. Miami*, 664 F.2d 435, 440-41 (5th Cir. 1981):

> The court, however, must not merely sign on the line provided by the parties. Even though the decree is predicated on consent of the parties, the judge must not give it perfunctory approval. . . . Because the consent decree does not merely validate a compromise but, by virtue of its injunctive provisions, reaches into the future and has continuing effect, its terms require more careful scrutiny. Even when it affects only the parties, the court should, therefore, examine it carefully to ascertain not only that it is a fair settlement but also that it does not put the court's sanction on and power behind a decree that violates the Constitution, statute, or jurisprudence. This requires a determination that the proposal represents a reasonable factual and legal determination based on the facts of record, whether established by evidence, affidavit, or stipulation. If the decree also affects third parties, the court must be satisfied that the effect on them is neither unreasonable nor proscribed.

See also Smyth, 282 F.3d at 280 (citing with approval *United States v. Miami*). As the court noted in *In re Dalen*, 259 B.R. at 606, courts must consider the terms of a consent decree before entry because the provisions of the decree will inevitably affect persons other than those who were the immediate parties to the agreement. *See also Commonwealth v. O'Neill*, 100 F.R.D. 354, 356 (E.D. Pa. 1983), *aff'd*, 746 F.2d 1465 (3d Cir. 1984) (court required to consider the rights and positions of other parties affected by the proposed decree).

The Fourth Circuit has noted that in entering a consent decree, "a district court should ~~not blindly~~ accept the terms of

a proposed settlement." *United States v. North Carolina*, 180 F.3d 574, 581 (4th Cir. 1999). "Rather, before entering a consent decree the court must satisfy itself that the agreement 'is fair, adequate, and reasonable' and 'is not illegal, a product of collusion, or against the public interest." *Id.* (citation omitted).[5]

The MercExchange/RetumBuy settlement and license agreements comprehensively cover the rights, duties and obligations of MercExchange and insolvent RetumBuy. MercExchange could have, and should have, left it at that. However, when MercExchange asked the Court to sign a consent judgment loaded with extraneous and prejudicial statements, it required the Court to evaluate and consider the extraneous language.

B. The Consent Judgment and Order's extraneous statements are improper.

"[B]efore entering a consent decree, the court must satisfy itself that the agreement 'is fair, adequate, and reasonable." *United States v. North Carolina*, 180 F.3d at 581 (citation omitted). The extraneous statements in MercExchange's proposed Consent Judgment are neither fair, reasonable, nor necessary. MercExchange was free to drop its claims against insolvent ReturnBuy for no cost, and to enter into a license agreement with the dissolving company—but it cannot demand that the Court to make incorrect statements about the patents, and the rights of third parties, as a condition of dismissal. ReturnBuy's "confessions" were the product of a

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[5] Although the district court need not conduct a "rehearsal" of the trial, a court should consider the strength of the plaintiff's case including (1) the extent of discovery that has taken place, (2) the stage of the proceedings, and (3) the want of collusion. *Id.* In short, the standard presents a two part inquiry: (1) is the agreement illegal, collusive, or otherwise against public policy and (2) is it fair, adequate, and reasonable. *Am. Canoe Assoc., Inc. v. United States EPA*, 54 F. Supp. 2d 621, 625 (E.D. Va. 1999).

shotgun marriage, and the Court should not adopt them in a Court order.

1. *The Court should not sign an order stating that the '265 patent is "valid an enforceable."*

The Consent Judgment and Order states "ReturnBuy also consents to a judgment that the '265 patent is valid and enforceable. . . ." Proposed Consent Judgment and Order. Such statements, based solely on the sham "confession" of an insolvent company, are improper, and the Court should strike them. The U.S. Supreme Court has recognized that "[a] patent by its very nature is affected with a public interest." *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (citing *Precision Instrument Mfg. Co. v. Automotive Maint. Machinery Co.*, 324 U.S. 806, 816 (1945)). The Federal Circuit has since noted, "[a]fter Blonder-Tongue, the 'public policy' import of validity rulings (especially those finding patents invalid) has grown substantially." *Morton Int'l, Inc. v. Cardinal Chem. Co.*, 967 F.2d 1571, 1575 n.6 (Fed. Cir. 1992).

Here, the Court has not yet adjudicated whether the '265 patent is valid and enforceable, and need not, and should not, comment on those issues in any order addressing the ReturnBuy/MercExchange pact.

2. *The Court should not sign an unnecessary injunction, much less one addressing third-parties and expanding the scope of the '265 claims.*

The proposed Consent Judgment and Order enjoins insolvent RetumBuy, and addresses the rights of third parties, who neither negotiated the settlement and license nor assented to their terms. Moreover, in addressing these rights, the terms of the Consent Judgment and Order expand the enjoined conduct beyond the scope the Court's construction of the '265 claims.

The second paragraph of the proposed Consent Judgment and Order states:

> ReturnBuy further agrees and stipulates that it, its officers, agents, servants, employees, and attorneys, and any persons in active concert or participation with them who receive actual notice of this judgment are permanently enjoined from infringing the above claims of the '265 Patent by making, using, selling or offering for sale a computer-implemented service, system, and or process(es) which facilitates the posting of items or goods for sale *or auction through or by an electronic online market or auction, that also employs a digital imaging means and a textual description of the item or good for sale or auction, and any colorable variations thereof* (Emphasis added).

These extraneous statements conflict with due process, are contrary to public policy, and impermissibly expand the scope of the '265 claims.

First, MercExchange has no need for an Federal Court injunction against insolvent RetumBuy, which is now licensed to practice MercExchange's patents. (McFarland Decl. Exs. 2 and 3). In the highly unlikely event that MercExchange and insolvent ReturnBuy have a disagreement in the future, they may resolve it in a breach of contract action under the License and Settlement Agreements—no separate Federal Court injunction is appropriate or necessary. (McFarland Decl. Exs. 2 and 3). The gratuitous "injunction" that MercExchange asks the Court to enter is a thinly-veiled effort to create the impression that the Court believes that the '265 patent is valid, infringed, and enforceable, and to prejudice eBay. (MercExchange's allegations against eBay are based in part on the underlying conduct of insolvent ReturnBuy.) The injunction is improper and unnecessary, and the Court should not enter it.

Second, the Consent Judgment should not make any statement regarding the rights of third parties, who have had no opportunity to litigate or address the issues addressed in MercExchange's proposed Consent Judgment and Order.

Third, the Consent Judgment should not make any statement purporting to expand the scope of the '265 claims beyond the Court's *Markman* construction. Rather than address the Court's *Markman* ruling, MercExchange's Consent Judgment purports to summarize the '265 patent claim language and attempts to enjoin "*any colorable variations thereof*" Such a vague extension of the '265 claims is impermissible and unenforceable.

Accordingly, the Court should strike the extraneous statements in MercExchange's proposed Consent Judgment and Order, and simply enter an order dismissing the case between MercExchange and ReturnBuy. Alternatively, the Court should reserve comment until the case, including the '265 patent, are litigated and resolved on the merits.

IV. CONCLUSION.

MereExchange and insolvent ReturnBuy were free to settle the case, but they cannot ask the Court to make improper statements regarding third parties or the '265 patent's scope, validity, enforceability, or alleged infringement. Thus, the Court should strike the extraneous statements included in the proposed Consent Judgment and Order and simply dismiss MercExchange's claims against ReturnBuy. Alternatively, the Court should simply wait until the remainder of the case, including the validity, enforceability, and alleged infringement of the '265 patent, is resolved on the merits.

Dated: January 21, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., HALF.COM, INC.,
AND RETURNBUY, INC.,

Defendants.

PLAINTIFF'S REPLY MEMORANDUM IN FURTHER SUPPORT OF ITS MOTION FOR LEAVE TO SUBMIT SUPPLEMENTAL EXPERT TESTIMONY AND FOR FURTHER RECONSIDERATION OF THE COURT'S ORDERS OF OCTOBER 21, 2002, AND JANUARY 13, 2003

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* * * *

to-person" system. Presumably, when used in contrast to the Court's construction of an "auction" over a -trusted network" or through a "trusted intermediary," it means that a "person-to-person" system does not employ an intermediary. But, of course, eBay has admitted that it is an "online intermediary." After all, what is the reason for eBay's existence? It facilitates online auctions between buyers and sellers, i.e., "persons." eBay's entire business model, in fact, derives revenue from the services it provides those "persons" and the fees it charges. Accordingly, any discussion of a "person-to-person" system bears no resemblance to eBay under the Court's apparent use of that phrase.

F. The Court Has Never Defined What It Meant By The Imported Claim Terms "Trusted Intermediary" or "Trusted Network"

Thus, MercExchange is confronted with a fundamental due process problem. The Court has imported the elements of "trusted intermediary" or "trusted network" into the claim term "auction."[6] But the Court has never provided a definition

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2001) and *Scimed Life Sys., Inc. v. Advanced Cardiovascular Sys., Inc.*, 242 F.3d 1337, 1344 (Fed. Cir. 2001), as confined to their facts. *Id*

for "trusted intermediary" or "trusted network," and MercExchange is left without any substantial basis upon which to establish these undefined elements. Obviously, it is MercExchange's burden to prove infringement. MercExchange does this by applying the properly construed claims to the accused device or system. *See CCS Fitness, Inc. v. Brunswick Corp.*, 288 F.3d 1359, 1365 (Fed. Cir. 2002). Thus, as a fundamental matter, MercExchange must know what it is that it is required to prove.

As a preliminary matter, for example, Plaintiff observes that nowhere in the entire specification or prosecution history does the imported claim element "trusted intermediary" appear.[7] Is Plaintiff to assume that "trusted intermediary" has its plain and ordinary meaning? So, for example, Plaintiff may establish that this element is present by demonstrating that the accused system of eBay promotes "trust," *i.e.*, it is "one in whom confidence is placed," *see* Webster's II, New Riverside University Dictionary (2d ed. 1988) at 1240, and that an "intermediary" is simply "one that acts as an agent between persons." at 637. Or did the Court have some other construction in mind?

Certainly the Court in its *Markman* Ruling identified exemplary specification passages, including the "summary of the invention" section, from which it concluded that everything

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[6] The Court's *Markman* Ruling also imported those limitations into the claim terms "electronic auction," "electronic market," and "market for goods"—claim terms that collectively appear in all 135 claims in three separate patents in suit. *See Markman* Ruling at 12, 13 and 36. Under the Court's rationale, since all of Mr. Woolston's patents and pending patent applications rely on the same common specification from which the Court gleaned this limitation, every other issued patent, or any patent that will ever issue to Mr. Woolston, will contain the implied limitation, "trusted intermediary" or "trusted network." Such an interpretation cannot be sustained under settled Federal Circuit precedent.

[7] For that matter, the word "intermediary," "intermediation," or "intermediate" does not appear anywhere in the specification.

in the patents "revolved around a trusted intermediary." *See Markman* Ruling at 12. Indeed, it appears that the Court cited to some *eleven* separate embodiments that the inventor included in the specification which the Court deemed would promote "trust" over the network. *See id. at* 11-12. Was this list of examples intended to be exhaustive of the ways in which Plaintiff might establish the "trusted intermediary" or "trusted network" elements? Must Plaintiff establish that *all these embodiments* are present in the accused system, or may Plaintiff merely establish that a preponderance of these examples are present (say 6 out of 11)? May Plaintiff rely on other examples in the specification in which the inventor disclosed embodiments that would promote trust?[8] If so, how many "trust-promoting" embodiments must Plaintiff prove from the specification? All of them? Most of them? Or does this discussion highlight the very problem that arises when extraneous limitations are imported into clear claim language? As the Federal Circuit has observed,

> The danger of improperly importing a limitation is even greater when the purported limitation is based upon a

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[8] For example, Mr. Woolston discloses that consignment nodes may be required to take "licenses," Col. 4,11.53-55, that participants must give "log on responses," Col. 9,11. 19-22, participants may be required to provide credit card numbers, Col. 9,11.23-25, give PIN numbers, user IDs and the like to grant access privileges, *id.*, participants may be required to utilize an "interface program," Col. 9,11.25-26, the consignment node operator may identify an authorized posting terminal code, Col. 17,11. 37-40, it may police the network and revoke privileges for participants who abuse their services, Col. 4,11.55-57, it may maintain a historical database of past sales, Col. 10,11. 39-43, it may utilize "encryption techniques," to provide reliable verification techniques, Col. 12, 11. 40-43, and it may not reveal your credit card information to third parties, Col. 18, 11.50-52. These, plus dozens of other examples disclosed in the specification, were all intended to promote trust within the network envisioned by Mr. Woolston.

Nevertheless, it does not mean that all of these embodiments are necessarily imported into the claims

> term not appearing in the claim. 'If we once begin to include elements not mentioned in the claim in order to limit such claim . . . we should never know where to stop.'

Amgen, Inc. v. Hoechst Marion Roussel, Inc., F.3d ____, 2003 WL 41993 (Fed. Cir., January 6, 2003) (quoting *Johnson Worldwide Assocs., Inc. v. Zebco Corp.*, 175 F.3d 985, 990 (Fed. Cir. 1999)) (quoting *McCarty v. Lehigh Val. R.R.*, 160 U.S. 110, 116 (1895)).

May Plaintiff also point to other examples in the accused systems of eBay that promote "trust," albeit not disclosed in the patents' specification? After all, the Federal Circuit's precedent is clear that "claims are not perforce limited to the embodiments disclosed in the specification." *Id. at* *9; *see also Rexnord Corp. v. Laitram Corp.*, 274 F.3d 1336, 1344 (Fed. Cir. 2001) ("[A]n applicant is not required to describe in the specification every conceivable and possible future embodiment of his invention."). Thus, for example, were eBay to employ other methods to promote trust as it intermediated the online auctions on its website, Plaintiff would clearly be free to establish the "trusted intermediary" element through proof of those methods, one would assume.

As a practical matter, therefore, Plaintiff requires further guidance as to what it must prove to establish infringement of the patents in suit. Indeed, as demonstrated by eBay's motions for summary judgment of noninfringement, it has treated the imported claim element "trusted intermediary" as an empty vessel into which it may pour any definition it wishes, as long as it does not remotely resemble eBay's operations. Accordingly, eBay's arguments with respect to "trusted intermediary" have been reduced to a simplistic formula: "Mr. Woolston believe(s) that people lie, cheat and steal." *See* eBay's so-called "Motion to Enforce Judge Friedman's September 19 and 22 Orders" at 4. Whereas eBay

believes "that people are basically good." *Id.* Apparently, the trial will rum on those issues if eBay has its way.[9]

But clearly the purpose of a claim construction is not to foster further ambiguity. The purpose of a claim construction is to define terms such that the Plaintiff understands what it must prove, and eBay may understand whether its system infringes. Unfortunately, that is not what has occurred here.

Indeed, the problem has been further exacerbated by the Court's interpretation that the patents in suit "teach away" from a "person-to-person" system. *See Markman* Ruling at 12. First, as noted above, there is no such concept of a patent "teaching away" from a device or system. Second, the Court nowhere defines what it considers a "person-to-person" system to be. Presumably, it stands in contradistinction to a "trusted intermediary" system. But as noted above, the Court has not defined that "claim" element either. If the Court meant a "person-to-person" system to be one in which an individual seller directly contacts individual buyers and offers a good for sale or auction, then that clearly is not the system provided by eBay. eBay obviously provides a service for which it charges its fees and commissions. eBay obviously acts as an "intermediary" between those individuals. In fact, it admits as much in its SEC filings where it concedes it is an "online intermediary."

Moreover, in the Court's January 13 Order, the Court now appears to be incorporating a specific type of transaction into its definition of "trusted intermediary." *See* January 13 Order at 7. The Court referenced its "trusted intermediary" construction by noting its belief that "*[f]or example*, in the auction mode, once the bidding has closed and a sale has been

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[9] Those same basically "good people" flooded eBay last week with offers to sell pieces of the doomed Columbia shuttle. What was eBay's reaction: it "policed its network" and shut down the sales, just as taught by Mr. Woolston's '051 Patent. *See* Col. 4,11.55-58.

made, the buyer transfers his payment to the consignment node or trusted intermediary. The consignment node then takes his commission or fee, and transfers the remainder of the purchase price to the seller." *Id.* MercExchange assumes the Court utilized the words "for example" to illustrate that this is one manner in which a particular transaction may occur that would constitute a "trusted intermediary." For if the Court meant otherwise, its importation of this specific definition into the '176 and '265 Patents would make no sense. The '176 Patent claims do not even require a transaction, as the Court observed. *Id.* at 29. The '176 Patent is addressed to using a search agent to search a plurality of electronic markets or electronic auctions for a particular item for sale or auction. The patent addresses only the searching, not the sale. Further, the '265 Patent is completely silent with respect to accounts or commissions. All that is required by the claims of that patent is that goods be posted for sale via an electronic market and a transaction be processed. Nevertheless, if the Court's definition as provided in its January 13 Order was the exclusive definition for the term "trusted intermediary," then it could have no possible relevance to the other two patents in suit. Thus, MercExchange assumes that it was not the Court's intention to define "trusted intermediary" in terms of a specific type of transaction.

In sum, MercExchange respectfully requests that the Court provide some guidance with regard to what it means when it utilizes the various terms "trusted intermediary," "trusted network," or "person-to-person," for that matter. MercExchange must establish by a preponderance of the evidence that the defendants' accused systems meet those limitations. At a minimum, it should be entitled to know what it needs to prove.[10]

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[10] Plaintiff respectfully suggests that the discussion above demonstrates the type of mischief that is created when extraneous limitations are

III. CONCLUSION

For these reasons, MercExchange respectfully requests that the Court accept the proffered supplemental expert testimony of its expert witnesses, and to give further reconsideration to its orders of October 21, 2002, and January 13, 2003.

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imported into clear claim terms. The Federal Circuit emphasized as much in its recent decision reversing Judge Payne in this Court. Plaintiff appreciates that the Court has had little time to address the multiple, complex issues that have arisen in this patent infringement lawsuit. The problem has been compounded, of course, by the defendants' unwillingness to fairly and accurately provide the Court with the appropriate legal standards. And the Court has apparently been misled by defendants' "teaching away" argument.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC.,et al.,
Defendants.

ORDER AND OPINION

Presently before the court are three Motions for Summary Judgment filed by the parties, and one Motion to Reconsider filed by the plaintiff. First, eBay, Inc. ("defendant" or "eBay") has filed a Motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 ("the '051 patent"). Second, eBay, together with Half.com ("defendants"), have filed a Motion for Summary Judgment of Noninfringement of claims 8-11, 13-14, 15-18 and 26-29 of U.S. Patent No. 5,845,265 ("the '265 patent"). Third, MercExchange, LLC ("plaintiff") has filed a Motion for Partial Summary Judgment of Willful Infringement of the '265 Patent. Finally, the plaintiff has filed a Motion for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003.

I. Factual Background

The factual and procedural history of this case has been fully discussed in the court's prior opinions and does not need to be reiterated here.

* * * *

the issues involved in this patent as best they can so that a jury will be able to understand and ultimately decide them at trial.

In sum, the defendants' Motion for Summary Judgment of Noninfringement of claims 8-11, 13-14, 15-18 and 26-29 of the '265 patent and the plaintiffs Motion for Partial Summary Judgment of Willful Infringement of the '265 Patent are DENIED.

III. Plaintiff's Motion for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003

A. Standard of Review

As this court explicitly stated in the plaintiff's first Motion to Reconsider, entered on January 13, 2003, motions to reconsider are "heard only where the Court has patently misunderstood a party or where there is a significant change in the law or facts of the case." *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1253, 1355 (E.D. Va. 1995) (internal quotations omitted). They "cannot be granted where the moving party simply seeks to have the Court rethink what the Court ha[s] already thought through." *Xoom, Inc. v. Imageline, Inc.*, 93 F. Supp. 2d 688, 696 (E.D. Va. 1999) (internal quotation omitted). In this case, the plaintiff argues that it has new evidence, in the form of supplemental expert opinions, which supports its position that there is an adequate written description for debiting/charging a seller's account a commission or fee.

B. Analysis

As an initial matter, the court notes that this Motion is essentially a Motion to Reconsider the court's ruling on the plaintiff's Motion to Reconsider. The plaintiffs argument that it now has new evidence is of no consequence because the

first Motion to Reconsider was filed by the plaintiff. The plaintiff had every opportunity to submit new evidence in conjunction with that Motion. For some reason, however, the plaintiff asserts that the basis for which the court ruled upon in the Motion to Reconsider was not fully argued or briefed. The court is at a loss as to how this is possible. Not only were the issues fully briefed and argued last spring, they were further argued during the *Markman* hearing held during the summer. Moreover, the court issued its October 21, 2002 Order shortly after it entered its ruling on the *Markman* hearing. The plaintiff filed its Motion to Reconsider after all of this took place. So to now argue that the issues were not fully briefed is inaccurate. If the plaintiff had "new evidence" to support its position, it should have filed it with its first Motion to Reconsider. The court will not continue to allow the plaintiff to attempt to reopen previously ruled-upon motions whenever it receives an adverse ruling. At this juncture, "the proper recourse is appeal—not reargument." *Johnson v. City of Richmond*, 102 F.R.D. 623, 624 (E.D. Va. 1984). Therefore, the plaintiff's Motion to Supplement Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003 is denied.

As an additional matter, in the plaintiff's Reply memorandum to this Motion, it launches into a diatribe regarding the court's *Markman* Opinion, objecting to the claim construction premise that the inventor's intended his system to occur over a trusted network or with a trusted intermediary. *See* Pl.'s Reply, Dkt. 271, pp. 11-20. The court finds this portion of the Reply completely inappropriate. First, raising an issue regarding the *Markman* Opinion in a Reply brief to a Motion to Reconsider a summary judgment ruling is improper. eBay has since filed an Application for Leave to Submit Objections to MercExchange's Request to Reconsider the Markman Ruling Included in MercExchange's Feb. 6, 2003 Reply, strenuously objecting to the 'plaintiffs actions here. While the practice of continued filing of responsive pleadings is not looked upon

favorably by the court, in this instance, based on the plaintiffs actions of improperly raising new issues in its Reply, the court grants eBay's Application and deems the Objection filed. Second, in numerous motions and letters submitted to the court since the *Markman* Opinion was entered, the plaintiff has yet to raise a challenge to the claims constructions therein. Moreover, in the plaintiff's own post-*Markman* Motion for Partial Summary Judgment, it argues that eBay is a trusted network and acts as a trusted intermediary. How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it lacks any substantial basis upon which to proceed is completely disingenuous.[2] Thus, it is wholly improper for the plaintiff to now raise the issue of claims construction in conjunction with this Motion, and the court denies any request to further explain the *Markman* decision.[3]

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[2] In addition, plaintiff's counsel has commented to the press that the court's ruling that an auction occurs over a trusted network will help the plaintiff as it will require eBay to argue that it is not trusted. *See* CNET News.com, *eBay Patent Case Moves Closer to Trial* (Oct. 25, 2002), *available at* http://news.com.com/2100-1017-963434.html ("As part of his Markman decision, Friedman ruled that the term 'auction' as used in MercExchange's patents means a 'trusted network or . . . intermediary.' Although MercExchange argued against this interpretation, Robertson said it will work in the company's favor. The ruling puts eBay in the position of having to argue that it is not a trusted network, he said.").

[3] The newly decided cases cited by the plaintiff in this portion of the Reply memorandum, *see Rambus, Inc v. Infineon Tech., AG*, F.3d 2003 WL 187265 (Fed. Cir. Jan. 29, 2003) and *Amgen, Inc. V. Hoechst Marion Roussel, Inc.*, F.3d 2003 WL 41993 (Fed. Cir. Jan. 6, 2003), do not affect the court's *Markman* holding and cases cited therein. Therefore, these cases cannot serve as a basis for the improperly requested reconsideration of the *Markman* Opinion.

C. Attorneys' Fees and Costs

Finally, eBay has asked for the court to award it attorneys' fees and costs in opposing this motion pursuant to 28 U.S.C. § 1927. Section 1927 provides that

> '[a]ny attorney or other person admitted to conduct cases in any court of the United States or any Territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorney's fees reasonably incurred because of such conduct.

28 U.S.C. § 1927 (West. 1994). The award of sanctions under section 1927 is in the discretion of the district court. *See Chaudhry v. Gallerizzo*, 174 F.3d 394, 410 (4th Cir. 1999). Section 1927 was enacted to sanction attorneys who "unreasonably extend court proceedings." *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 757, 100 S. Ct. 2455 (1980); *see also DeBauche v. Trani*, 191 F.3d 499, 511 (4th Cir. 1999) ("The unambiguous text of § 1927 aims only at attorneys who *multiply* proceedings.") (emphasis in original); *Knorr Brake Corp. v. Harbil Inc.*, 738 F.2d 223, 226 (6th Cir. 1984) ("A court may impose section 1927 fees only to sanction needless delay by counsel."). Further, a court must find that the attorney acted in bad faith as a prerequisite to awarding fees under section 1927. *See Chaudhry*, 174 F.3d at 411 n. 14 (quoting *Brubaker v. City of Richmond*, 943 F.2d 1363, 1382 n. 25 (4th Cir. 1991)); *accord Knorr*, 738 F.2d at 227.

In this case, the plaintiff filed not only one Motion to Reconsider this court's Opinion, but a second Motion to Reconsider the court's ruling in the first Motion to Reconsider. The court fully explained to the plaintiff in the first Motion to Reconsider that motions to reconsider are not appropriate where a party simply asks the court to rethink what it has already decided. The court warned the plaintiff the proper recourse

was appeal, not reargument. However, despite this admonition by the court, the plaintiff filed yet another Motion to Reconsider, albeit styled as a Motion for Leave to Supplement Expert Reports for Further Reconsideration of the Court's Orders. While the court is not inclined to award attorneys' fees at this juncture, the court warns the plaintiff that the filing of any further motions to reconsider in this case without the requisite showing of new evidence or a change in the law will result in the imposition of attorneys' fees and costs.

IV. Conclusion

For the reasons discussed above, the plaintiff's Motion for Leave to File Summary Judgment Response in Excess of 30 Pages is GRANTED. The plaintiff's response and the defendant's reply are ORDERED FILED. Defendant eBay's Motion for Summary Judgment of Noninfringement and Unenforceability of the '051 Patent is GRANTED in part and DISMISSED in part. The defendants' Motion for Summary Judgment of Noninfringement of the '265 Patent is DENIED. The plaintiff's Motion for Summary Judgment of Willful Infringement of the '265 Patent is similarly DENIED. Defendant eBay's Application for Leave to Submit its Objection to MercExchange's Request to Reconsider the *Markman* Ruling is GRANTED. Finally, the plaintiff's Motion to Supplement Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003 is DENIED in its entirety.

The Clerk is REQUESTED to send a copy of this Order to counsel of record.

It is so ORDERED.

/s/ [Illegible]
United States District Judge

Norfolk, Virginia
February 14, 2003

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Feb. 26, 2003]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

JUDGMENT AND ORDER

Upon consideration of the consent of defendant ReturnBuy, Inc. ("ReturnBuy"), judgment is entered in favor of plaintiff MercExchange, LLC ("MercExchange") against ReturnBuy for infringement of claims 1, 2, 4, 7, 23, 24, and 25 of United States Patent No. 5,845,265 ("the '265 Patent"). In addition, ReturnBuy also consents to a judgment that the '265 Patent is valid and enforceable and admits that it has practiced at least the claims identified above. ReturnBuy also agrees to a judgment that all of the defenses it has asserted in this action are dismissed with prejudice.

ReturnBuy further agrees and stipulates that it, its officers, agents, servants, employees and attorneys, and any person in active concert or participation with them who receive actual notice of this judgment are permanently enjoined from infringing the above claims of the '265 Patent by making, using, selling or offering for sale a computer-implemented service, system, and/or process(es) which facilitates the posting of items or goods for sale or auction through or by an elec-

tronic online market or auction, that also employs a digital imaging means and a textual description of the item or good for sale or auction, and any colorable variation thereof.

Notwithstanding the foregoing, this injunction is subject to the separate License Agreement and Settlement Agreement entered into by and between MercExchange and ReturnBuy.

Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com and MercExchange in this case.

The Clerk is REQUESTED to send a copy of this Order to counsel of record via facsimile and regular mail.

It is so ORDERED.

/s/ [Illegible]
UNITED STATES DISTRICT JUDGE

Norfolk, Virginia
February 26, 2003

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY INC., a Delaware Corporation, HALF.COM, INC., a Pennsylvania Corporation, and RETURNBUY, INC., a Delaware Corporation,
Defendants.

EBAY AND HALF.COM'S MEMORANDUM IN SUPPORT OF ITS EXPEDITED MOTION TO ENFORCE JUDGE FRIEDMAN'S FEBRUARY 14, 2003 ORDER AND OBJECTION TO MERCEXCHANGE'S RENEWED ATTEMPT TO RELITIGATE AND REOPEN THE MOTION-TO-RECONSIDER THE MOTION-TO-RECONSIDER AND MARKMAN PROCEEDINGS.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

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I. INTRODUCTION.

eBay and Half.com respectfully request the Court enforce its February 14, 2003 order, and: (1) reject MercExchange's new attempt to relitigate the '051 patent and MercExchange's motion-to-reconsider MercExchange's motion-to-reconsider, and (2) reject MercExchange's new attempt to relitigate, reopen, reconsider, and disavow the Court's '265 patent *Markman* decision:

- First, on February 26, 2003, MercExchange *again* attempted to submit the "new Weaver testimony" that the Court correctly struck from the record on February 14, 3003, and continued to litigate the '051 patent. Ignoring the Court's order, MercExchange's counsel, Mr. Robertson, complained about the Court, proclaimed that Judge Friedman would be "reversed," and announced that he was *again* submitting the "new" Weaver testimony and other '051 arguments to "complete" the "record." Thus, contrary to the Court's orders, Dr. Weaver offered his "new" opinion yet again, and proclaimed that he "may testify" about it.
- Second, on February 28, 2003, MercExchange *again* sought to reopen, reconsider, and relitigate the '365 patent *Markman* proceedings, and disavow what MercExchange itself repeatedly argued to the Court. For many months, the parties and the experts agreed and proceeded with the claim construction that *both parties* adopted pre-*Markman*—the '365 patent "market for goods . . . for sale" covers only sales, i.e. *fixed price*. In fact, before and after *Markman*, MercExchange told the Court, eBay, and the media that until eBay adopted the "Buy-It-Now" feature, eBay "did not operate as an 'electronic market' as claimed in the '365 Patent because eBay's system did not allow users to list an item *for sale at a fixed price*." On the eve of trial, now that the '051 patent has been invalidated, MercExchange seeks to disavow its previous statements, reopen and relitigate *Mark-*

> *man*, and propose an entirely new infringement and damages theory—*which would increase MercExchange's alleged "damages" by over 400%, or an additional $130 million.*

MercExchange's tactics are inexcusable. Its motion-to-reconsider was inappropriate and unfounded. MercExchange's motion-to-reconsider the motion-to-reconsider was unprecedented and improper, and its reply brief—an angry diatribe against the Court's *Marknian* ruling—was completely inappropriate. MercExchange's decision to *ignore Judge Friedman again* and submit the excluded '051 declaration (with Dr. Weaver's statement that he may testify about it and the '051 patent anyway) is unbelievable. Finally, MercExchange's attempt to reopen relitigate and disavow the '265 *Markman* ruling, with *admittedly* new claim construction theories proposed for the first time on February 27, 2003—is completely inappropriate, and MereExchange's attempt to blame Judge Friedman for it is disingenuous at best. *Markman* is over, and MercExchange cannot reopen and relitigate it now.[1]

Thus, eBay respectfully requests the Court strike the February 26 and 27, 2003 MercExchange expert reports, and order MercExchange to pay the costs and attorneys fees that eBay and Half.com have incurred in opposing Merc-

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[1] Dr. Weaver's new February 26, 3003 report proclaims that "it is inexcusable for eBay to spend millions of dollars of its shareholders' money defending a patent infringement lawsuit that could be avoided by implementing an $8000 change to its systems." (Zahn Decl. Ex. 11 (Weaver Report ¶75 (Feb. 27, 2003)). The cost in defending this lawsuit has been enormous, and inexcusable. MercExchange forced defendants to incur enormous expense by (1) refusing to accept the Court's rulings, (2) withholding its post-Markman contentions, and (3) forcing defendants to litigate a host of smoke-screen issues, including MercExchange's meritless motion to disqualify Commissioner Mossinghoff over the holiday season (a motion that, the Court noted, MercExchange had filed for tactical reasons).

Exchange's repeated, unjustified efforts to relitigate the Court's orders and distort the record for MercExchange's threatened appeal.[2]

II. BACKGROUND.

A. After the Court's October 2002 *Markman* and summary judgment order, eBay repeatedly asked MercExchange to supplement its expert disclosures, and MercExchange repeatedly refused to do so.

The Court issued its *Markman* decision in October, *four months ago*. Although MercExchange bears the burden of proof on infringement and damages, MercExchange refused to provide post-*Markman* supplemental reports, despite defendants' *repeated* requests for them. MercExchange initially proclaimed that its *pre-Markanan* expert reports somehow "anticipated" the Court's decision on all issues, all elements, and all claims. eBay repeatedly argued that the parties should take the Court's *Markman* decision into account.

> As the Court's *Markman* ruling will obviously have a significant impact on the case, scheduling any of the expert discovery dates to occur before the Court's *Markman* ruling, as you propose, is prohibitively expensive, and would waste the time and resources of the parties and the experts. With the trial date set to take commence

[2] Along with Dr. Weaver's improper report, MercExchange also served a "new" expert report from a patent lawyer, Mr. Adelman, regarding the inequitable conduct on the '051 patent. Mr. Adelman's report is months late, and merely adopts, almost verbatim, MercExchange's prior erroneous arguments. Mr. Adelman's report is not, and cannot be, part of any record for appeal. As the Court noted in addressing the 112 ruling: "The plaintiff had every opportunity to submit new evidence in conjunction with that Motion. . . . If the plaintiff had 'new evidence' to support its position, it should have filed it with its first Motion to Reconsider. The court will not continue to allow the plaintiff to attempt to reopen previously ruled upon motions whenever it receives an adverse ruling." Order (Feb. 14, 2003) at 7.

> on April 22 3003, eight months from now, the parties should wait for Judge Friedman's *Markman* ruling before completing expert disclosures and taking expert depositions.

(Zahn Decl. Ex. 1 (Letter from Jeffrey Randall to Gregory Stillman) (Sept. 35, 2002)).

> In view of the Court's ruling, the April 22, 2003 trial date, and the impending *Markman* ruling, we see no reason to spend thousands of dollars and waste the time of the experts rushing to provide "rebuttal" reports, which would have to be revised following the Court's *Markman* decision.
>
> Moreover, any pretrial schedule that would ignore the tremendous effort that Judge Friedman is putting into the *Markman* ruling strikes us as wasteful and unwise, and we are quite surprised that MercExchange would suggest it.

(Zahn Decl. Ex. 3 (Letter from Jeffrey Randall to Gregory Stillman) (Sept. 26, 2002)). (Zahn Decl. Ex. 3 (Letter from Jeffrey Randall to Gregory Stillman) (Oct. 31, 3003) (arguing that Judge Friedman intended the parties to "complete expert disclosures, taking into consideration the Court's recent *Markman* ruling")); (Zahn Decl. Ex. 4 (Letter from Jeffrey Randall to Judge Friedman) (Oct. 21, 3003) ("Unfortunately, the case cannot progress so long as MercExchange refuses to acknowledge the Court's September 19 order, [and] insists that the experts cannot address the Court's *Markman* ruling . . . eBay cannot fathom that the Court intended the parties and the experts to ignore the Court's comprehensive, 56-page *Markman* ruling")); (Zahn Decl. Ex. 5 (Letter from Jeffrey Randall to Gregory Stillman) (Oct. 23, 2002) (objecting to MercExchange's proposed schedule which "did not acknowledge the obvious impact of Judge Friedman's October 18, 3002 *Markman* ruling.")).

However, MercExchange refused to supplement its expert reports to address the Court's *Markman* ruling, maintaining:

> We see no reason to delay the final phase of the Rule 26(a)(2)(B) disclosures [to wait for the *Markman* decision] as those disclosures are merely replies to the rebuttal reports submitted on June 28 [prior to Markman]. *We do not believe that the Markman ruling could or should impact those reports.*

(Zahn Decl. Ex. 6 (Letter from Gregory Stillman to Jeffrey Randall) (Sept. 35, 2003) (emphasis added)). MercExchange's refusal to comply with the Court's *Markman* ruling left eBay without any prior notice of MercExchange's true infringement contentions.

In late November 3002, after Markman, MercExchange represented that it had "*fully disclosed its contentions and expert testimony*" and would not supplement its expert reports to address the Court's *Markman* ruling. (Zahn Decl. Ex. 7 (Letter from Jeffrey Randall to Gregory Stillman) (Nov. 37, 2003) (emphasis added) and Ex. 8 (Letter from Gregory Stillman to Jeffrey Randall) (Dec. 3, 2002) (emphasis added)).

MercExchange forced eBay to raise the matter yet again with the Court, which held: "*[T]his court's claims constructions in the Markman Opinion shall be taken into account in any remaining discovery matters, as well as all pretrial preparation.*" (Zahn Decl. Ex. 9 (Letter from Judge Friedman to the parties) (Nov. 22, 2002) (emphasis added)). Judge Friedman's November 22, 2002 order was crystal clear, but MercExchange did not respond to it, maintaining that its *pre*-Markman disclosures somehow anticipated the Court's *Markman* ruling.

Instead, MercExchange announced to the media that all three patents were ready for trial, and filed motion, after motion, after motion, to reconsider the Court's '051 summary judgment ruling.

B. After proclaiming that it had anticipated the *Markman* ruling all along, MercExchange launched into a diatribe regarding it.

While MercExchange was proclaiming to eBay that it had "fully anticipated" all of Judge Friedman's *Markman* rulings, and boasting to the national media that all three patents were heading to trial, MercExchange launched a completely inappropriate ten-page diatribe against Judge Friedman's *Markman* ruling, arguing that it deprived MercExchange of "due process" and that MercExchange "is left without any substantial basis" to proceed. (Merc. Reply (Feb. 6, 2003) at 15).

The Court correctly noted that MercExchange was speaking out of both sides of its mouth, and its diatribe against the Court and the *Markman* ruling was completely inappropriate:

> As an additional matter, in the plaintiff's Reply memorandum to this Motion, it launches into a diatribe regarding the Court's *Markman* Opinion, objecting to the claim construction premise that the inventor intended his system to occur over a trusted network or with a trusted intermediary. *See* Pl.'s Reply, Dkt. 371, pp. 11-20. The court finds this portion of the Reply completely inappropriate. First, raising an issue regarding the *Markman* Opinion in a Reply brief to a Motion to Reconsider a summary judgment ruling is improper. . . . Second, in numerous motions and letters submitted to the court since the *Markman* Opinion was entered, the plaintiff has yet to raise a challenge to the claims constructions therein. Moreover, in the plaintiff's own post-*Markman* Motion for Partial Summary Judgment, it argues that eBay is a trusted network and acts as a

> trusted intermediary. How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it lacks an substantial basis upon which to proceed is completely disingenuous.

(February 14, 2003 Order at 7-8).

C. The Court's February 14, 2003 order properly denied MercExchange's request to submit "new" evidence and opinions from Dr. Weaver.

On January 13, 2003, and again on February 14, 2003, the Court denied MercExchange's motions to reconsider the '051 summary judgment order. The Court's February 14, 2003 order could not have been more clear—the Court denied MercExchange's motion-to-reconsider its motion-to-reconsider in its entirety, *and denied MercExchange's request to file the "new" joint declaration from Drs. Weaver/Palmer*. The Court noted:

> If the plaintiff had "new evidence" to support its position, it should have filed it with its first Motion to Reconsider. The court will not continue to allow the plaintiff to attempt to reopen previously ruled-upon motions whenever it receives an adverse ruling. . . . Therefore, the plaintiff's Motion to Supplement Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 3003 and January 13, 3003 is denied.

(February 14, 3003 Order at 7). The Court also observed that MercExchange was improperly attacking the *Markman* ruling with a lengthy, improper diatribe.

> How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it lacks any substantial basis upon which to proceed is completely disingenuous.

(February 14, 2003 Order at 8).

The Court exercised its discretion and declined to award attorneys' fees to eBay, but warned MercExchange, yet again, that the section 112 dispute was over, and that it must respect the Court's decision or face sanctions:

> In this case, the plaintiff filed not only one Motion to Reconsider this court's Opinion, but a second Motion to Reconsider the court's ruling in the first Motion to Reconsider. The court fully explained to the plaintiff in the first Motion to Reconsider that motions to reconsider are not appropriate where a party simply asks the court to rethink what it has already decided. The court warned the plaintiff the proper recourse was appeal, not reargument. However, despite this admonition by the court, the plaintiff filed yet another Motion to Reconsider, albeit styled as a Motion for Leave to Supplement Expert Reports for Further Reconsideration of the Court's Orders. While the court is not inclined to award attorneys' fees at this juncture, *the court warns the plaintiff that filing of any further motions to reconsider in this case without the requisite showing of new evidence or a change in the law will result in the imposition of attorneys' fees and costs.*

(February 14, 2003 Order at 9-10 (emphasis added)).

D. Defying the February 14, 2003 order, MercExchange attempted to distort the record for appeal and again submitted the "new" '051 Weaver opinions, announcing that Weaver may testify about the '051 patent anyway.

Less than two weeks after the Court denied MercExchange's motion-to-reconsider the motion-to-reconsider, MercExchange's counsel, Mr. Robertson, wrote eBay, complaining about the Court and stating that Judge Friedman would be "reversed" on appeal. Despite Judge Friedman's order, which denied MercExchange leave to submit the

"new" Weaver opinion, Mr. Robertson attempted to submit the "new" Weaver opinion *anyway—as part of new '051 patent expert reports*—to "complete the expert discovery record." (Zahn Decl. Ex. 10 (Letter from Scott Robertson to Jeffrey Randall) (Feb. 36, 3003)).

The "new" February 36, 3003 Weaver expert report complained about the Court's decisions *yet again*, and included an entire section attempting to "incorporate" the "new" section 112 opinions that the Court had already *excluded*:

> The Court has granted in part and denied in part eBay's motion for summary judgment that the claims of the '051 Patent are invalid under 35 U.S.C. 112 para. 1 for lack of an adequate written description. The Court held that the claim term "seller's account" did have an adequate written description and that Dr. Palmer's and my First and Second Joint Declarations supported MercExchange's contention that there is an adequate written description support for the claim terms "debiting a seller's account for a fee amount" and "charging a seller's account a fee amount" in a person-to-person system, but that our First and Second Joint Declarations did not address the issue of adequate written description support for those claim terms in a trusted network or trusted intermediary system. *Thus, Dr. Palmer and I considered the issue in the context of a trusted network or trusted intermediary system in a supplemental Joint Declaration filed on January 23, 2003.* In our opinion, there is an adequate written description within both the April 1995 and November 1995 Application to enable a person of ordinary skill in the art to conclude that Mr. Woolston had a grasp of "debiting a seller's account a fee amount" and "charging a seller's account a fee amount" at the time those applications were filed. *I incorporate all of my prior opinions on this issue herein,*

> *including those set forth in* the Joint Declaration Of Jonathan W. Palmer Ph.D. And Alfred C. Weaver, Ph.D., Second Joint Declaration of Jonathan W. Palmer, Ph.D. And Alfred C. Weaver, Ph.D., and *the Supplemental Joint Declaration Of Jonathan W. Palmer, Ph.D. And Alfred C. Weaver, Ph.D.* and the deposition testimony I gave related to that subject.

(Zahn Decl. Ex. 11 (Supp.Weaver Report) (Feb. 36, 2003) 134 (emphasis added)).

[Throughout this case, I have prepared and submitted numerous declarations and supporting exhibits. *I hereby incorporate each such declaration by reference and may testify to any fact or opinion in any of those declarations.*

(Zahn Decl. Ex. 11 (Supp.Weaver Report) (Feb. 36, 3003) 15 (emphasis added)).

MercExchange's attempt to slip Dr. Weaver's *excluded* opinions into "the record" is inappropriate and inexcusable. MercExchange has no right to relitigate, relitigate, and relitigate these same issues time and again. It has no right to force eBay to incur repeated, unnecessary time and expense in responding to these issues, which have *already* been resolved.[3]

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[3] MercExchange does not understand the scope of the proper "record" for appeal. After the Court's February 14, 2003 order, the '051 summary judgment record for appeal was complete, and included the section 112, noninfringement, and inequitable conduct issues. Dr. Weaver's and Mr. Adelman's late February 26, 2003 expert reports are not, and cannot be, part of any "record" for purposes of appeal.

E. On the eve of trial, MercExchange violated the Court's orders, disavowed its own statements to the Court, and concocted an entirely new '265 case.

1. The parties agreed at *Markman*, and MercExchange expressly represented to the Court, that the '265 "market for goods . . . for sale" covered only *fixed-price* sales.

The '051 patent, which has been held invalid by the Court, covered auction methods. The '265 patent covers sales in a "market for goods . . . for sale"—which the parties agreed, both before, during, and after *Markman*, meant fixed-price sales. Thus, MercExchange *repeatedly* represented to the Court, and to eBay, that eBay did not infringe the '265 patent until it adopted the *fixed-price sales* "Buy It Now" feature.

MercExchange had no choice—after the '265 patent issued, but before eBay adopted the fixed-price "Buy-It-Now" feature, Mr. Woolsion had announced to the WALL STREET JOURNAL that his '265 patent *did not cover eBay*:

> Similarly, while Woolston was publicly proclaiming that the same patent application at issue here covered PriceLine.com, the Wall Street Journal quoted him as stating that eBay did *not* practice the technology in his applications: "Mr. Woolston said he didn't believe online-auction sites like the popular eBay Inc., San Jose, Calif., infringed on his patent technologically."

(Zahn Decl., Exh. 12 (Scott Thurm, *Inventor Disputes Key Auction Patent Field hr Priceline*, THE WALL STREET JOURNAL (Jan. 13, 1999) at B2)).

Thus, MercExchange had to admit at *Markman* that the '365 patent did *not* cover eBay's system until eBay adopted the fixed-price "Bat It Now" feature. MercExchange told the Court at *Markman*:

> eBay's reliance on a 1999 Wall Street Journal article is unavailing. . . . And with respect to the '265 Patent, in

> 1999, eBay operated solely in the "auction" mode. *It was not until November of 2000, when eBay adopted a "market" mode with its "Buy It Now" feature, that they fell within the claims of the '265 Patent.* Accordingly, the statement as incorrectly quoted was believed true at the time it was made.

(Merc. Reply Markman Br. at 30 (July 23, 3003) (emphasis added)).[4]

Throughout the *Markman* proceedings, both parties, and the Court, acknowledged that the '265 "market for goods . . . for sale" was *distinct* and *different* from an auction system, because the '265 "market for goods . . . for sale" requires *fixed-price* sales. At the *Markman* hearing itself, MercExchange's lawyers *again* represented to the Court that the '365 patent "market for goods . . . for sale" covered only *fixed-price* sales. Mr. Robertson said:

> Individuals in Mr. Woolston's inventions can post their good onto this network of—and indicate whether it should be sold *at a market, that is, through a fixed price*, or sold through auctions where participants can bid, and it can go to the highest bidder if, for example, reserve price is met.

(Zahn Decl., Exh. 14 (Markman TR at 41:13-18) (July 30, 2002) (emphasis added)). Mr. Buroker agreed:

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[4] MercExchange's interrogatory responses, *verified by Mr. Woolston*, acknowledged that eBay did not infringe the '265 patent before it added the fixed-price "Buy-It-Now" feature. *See* Zahn Decl. Ex. 13 (MercExchange's Response to eBay's Interrogatory No. 4 (Feb. 20, 2002) ("Notwithstanding eBay's actual notice of MercExchange's rights under the '265 Patent . . *eBay itself implemented the 'Buy It Now' mode for purchase of items listed for sale or auction via the eBay web site in November of 2000, thus bringing its own operations within the scope of the '265 Patent claims*, having full knowledge of MercExchange's rights.")).

> Just to step back and reiterate what Mr. Robertson said earlier, *in the '265 patent, we are not talking about an auction system*, we are talking about a system for presenting items virtually to a market.

(Zahn Decl., Exh. 14 (Markman TR at 90:5-8) (July 30, 2002) (emphasis added)).

2. After *Markman*, in cross-motions for summary judgment, MercExchange continued to represent to the Court that the '265 "market for goods . . . for sale" covered only "Buy-It-Now" and *fixed-price sales*.

For months after *Markman*, MercExchange continued to represent to the Court that the '265 "market for goods . . . for sale" covered only *fixed price sales*. During the September 19, 3003 hearing with Judge Friedman, Mr. Stillman again reiterated that eBay did not infringe the '265 patent in June 2000, because it did not have a *fixed price sales* feature:

> [I]n June of 2000 . . . there was only one patent that had been issued. That was the '265. At that time *we did not believe that eBay infringed the claims of that patent. . .* Then eBay later *adopted the right-now [sic] [Buy It Now] sales format, thereby bringing itself into the scope of the '265 patent as well.*

(Zahn Decl., Exh. 15 (Hearing TR at 3:17-3:8) (Sept. 19, 3003) (emphasis added)).

The Court issued the *Markman* ruling on October 18, 2002. Mr. Robertson, who told the Court during the Markman argument that the '265 "market for goods . . . for sale" covered sales "through a fixed price," announced to the media that MercExchange understood, and embraced, the Court's *Markman* ruling.

Thereafter, the parties filed cross-motions regarding the '265 patent, and on December 33, 3003, MercExchange

again unequivocally represented to the Court that the '265 patent "market for goods . . . for sale" covered only *fixed-price sales*, and that eBay had *not* infringed the '265 patent until it adopted the "Buy-It-Now" fixed-price feature:

> *At the time of the eBay/MercExchange meeting in June of 2000, eBay's system was significantly different.* In fact, a mere eight months after eBay learned about the MercExchange technology [sic], the system had evolved considerably. *Quite simply, in June of 2000, eBay did not infringe the '265 Patent. Prior to the meeting, eBay's system did not operate as an "electronic market" as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*
>
> Subsequent to this June 3000 meeting, eBay began to roll out new system features directly copying the system of the '265 Patent claims. For instance, in July of 2000, eBay announced its acquisition of Half.com for $365 million, an electronic market which permits *sellers to list items for sale at fixed prices*. In November 2000, *eBay introduced a "Buy It Now" fixed price format for listing items for sale [at fixed prices] via the eBay web site. . . .* And, in June of 2001, eBay introduced the eBay Stores feature to allow individual consignment stores to set up *electronic markets for selling items at fixed prices* on the eBay system.

(Mere. '265 Mot. for S.J. 1-2 (Dec. 23, 2002) (emphasis added)).

In late January 2003, MercExchange again addressed Mr. Woolston's statements to the Wall Street Journal, in which Mr. Woolston had *conceded* that eBay did not infringe the '265 patent before it had the fixed-price "Buy-It-Now" feature. MercExchange *again* admitted that Mr. Woolston's statement was *correct* at the time, and *again* admitted that

eBay did not infringe the '265 patent before it had the fixed-price "Buy-It-Now" feature:

> *MercExchange's statement that eBay did not infringe referred to the '265 patent At the time the statement was made, it was correct.* However, eBay later added a [*fixed-price*] "Buy It Now" feature, which clearly infringes the '265 patent.
>
> Further, eBay implemented a "trusted network" of "eBay Stores," all of which operate at a fixed price. Of course, all of these actions which constitute infringement of the '265 Patent occurred after . . . June of 2000 . . . . eBay knows this to be the case, but it simply does not inform the Court of this fact, instead offering only the *half-truth that MercExchange has stated that eBay did not infringe the '265 patent* (before it added the "Buy It Now" and "eBay Stores" features).

(Merc. Opp. to eBay's Mot. to Enforce Judge Friedman's Orders at 11-12 (Jan. 27, 2003) (emphasis added)).

Thus, before, during, and after *Markman*, MercExchange *repeatedly* acknowledged and represented to eBay, the media, and the Court that the '265 "market for goods . . . for sale" covered only *fixed-price sales*. MercExchange's experts followed the fixed-price construction as well, and argued that only eBay's "Buy-It-Now" feature infringed. Thus, MercExchange's proposed damages experts, Drs. Troxel/Evans, prepared damages reports that opined that eBay infringed the '265 patent only when it was operating in a *fixed-price sales mode*, using the "Buy-It-Now" feature. Drs. Troxel/Evans proclaimed that MercExchange was entitled to a total of $31 million in '265 patent damages (a grossly inflated figure), based on sales through the fixed-price "BuyIt-Now" feature. (Zahn Decl. Ex. 16 (Troxel Report at 9) (Sept. 27, 2002)).

Similarly, MercExchange's "technical" experts Drs. Weaver/Palmer (non-lawyers who opined about the law, and offered

little information about the technology), alleged that eBay infringed the '265 only in the *fixed price sales* mode, using the "Buy-It-Now" feature.

> One of ordinary skill in the art would interpret *the term "a market for goods"* from that claim phrase according to its ordinary meaning, and consistent with its use *in the '265 Patent specification*, to mean a computer-based system for use by at least buyers and sellers in which *a seller may electronically present a data record of a good for sale* and a prospective buyer may electronically transmit an offer to buy that good *at a particular price and quantity*. . . .

(Palmer Decl. ¶18) (Apr. 26, 2002) (emphasis added); (Palmer Expert Report ¶37) (6/10/02)(emphasis added)).

3. On February 27, 2003, MercExchange attempted to reopen *Markman*, disavow everything that it had said about the '265 patent, and offer a new theory to increase damages by a *factor of five*.

On February 27, 2003—over *four months* after Judge Friedman issued the *Markman* ruling, and after MercExchange had repeatedly claimed that its experts had fully anticipated the *Markman* decision and did not need to supplement—MercExchange served a "post-*Markman* supplemental" "joint" report from Drs. Troxel/Evans. Drs. Troxel/Evans disavowed everything that MercExchange had represented to the Court and to eBay about the "market for goods . . . for sale" being a *fixed-sales price* element. Instead, Drs. Troxel/Evans baldly proclaimed that Judge Friedman had *sua sponte* "expanded" the claims at *Markman* beyond MercExchange's proposed construction—although in fact, the Court's construction was actually *slightly narrower* than what MercExchange had proposed.[5]

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[5] Both parties agreed that the '265 patent "market for goods . . . for sale" covered only fixed-price sales; the parties disputed the trusted

For the first time, Drs. Troxel/Evans proclaimed that the '365 actually covered *all of eBay's operations*—an entirely new infringement theory that contradicted Mr. Woolston's prior statements to the WALL STREET JOURNAL and MercExchange's repeated representations to the Court.

> [A]fter we submitted our Expert Reports and Reply Reports, the Court issued its *Markman* ruling in this case, in which it construed the disputed limitations of the three MercExchange patents-in-suit. *See* October 18, 2002 Order and Opinion . . . In our prior reports in this case, we used a narrower interpretation of the '265 Patent to determine the damages amount due. . . . In these previous reports, based on this narrower construction [that the '365 patent covered only fixed-price sales, as Mr. Woolston himself told the Wall Street Journal], we had determined that the reasonable royalty for eBay's infringement of the '265 Patent should be calculated based on the application of a reasonable royalty rate to a base consisting of the estimated GMS of goods sold *using eBay's Buy-It-Now and/or other fixed-price sales format feature*. . . . [I]n light of the Court's expanded Markman Ruling, that royalty base must now include sales made through eBay's auction-style format as well.

(Zahn Decl. Ex. 17 (Troxel/Evans Joint Expert Report ¶10) (Feb. 28, 2003) (emphasis added)).

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intermediary issue. MercExchange argued in its *Markman* brief that "a market for goods" is "a place where items or goods may be bought or sold (e.g., here through a wide area communication network such as the Internet)." *See* Plaintiff MercExchange, L.L.C.'s Opening Brief in Support of Claim Construction Arguments for *Markman* Hearing, at Appendix C (July 18, 3002). The Court's October 18, 2002 *Markman* ruling narrowed MercExchange's proposed construction only slightly, changing the "place" to "trusted intermediary"—"The court finds that the market for goods is a trusted network where items or goods may be bought or sold." *Markman* Ruling at 36.

Thus, Drs. Troxel/Evans proclaimed that the "Total [Past] Damages Due and Owing to MercExchange" for "Only the '365 Patent" through March 3003 were not $31 million, as they had previously proclaimed, but were allegedly *more than five times that amount*—over *$168 million.*[6]

4. MercExchange's attempt to disavow its prior conduct and try an entirely new '265 claim construction and infringement theory violates Judge Friedman's orders.

MercExchange's excuse for changing its '265 infringement and damages—blaming the Court for *sua sponte* "expanding" the '265 claims beyond the fixed-price scope that both parties embraced—is utterly dishonest. (*See* footnote 5, *supra.*) The parties *agreed* at *Markman* that the '265 patent "market for goods . .. for sale" covered only *fixed-price sales*—they disputed whether the '265 "market for goods . . . for sale" should be *further limited* to the trusted intermediary, which is the only thing that Woolston's patent discloses. Thus, in considering the element for the '265 patent, the Court focused on the dispute between the parties, whether the '265 patent also required the trusted intermediary. *See* Markman Order (Oct. 18, 2002) at 35 ("The main dispute between the parties involves the trusted network argument which the court has addressed in the other two patents at issue in this case.").

The Court adopted MercExchange's '265 construction (which MercExchange repeatedly acknowledged covered only fixed-price sales) with one *narrowing* exception. MercExchange knew that Judge Friedman did *not* "expand" the '265 claims, much less do so *sua sponte.* In fact, *two months*

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[6] MercExchange did not disavow its statements to the Court at *Markman* and concoct its new '265 theory until the Court denied MercExchange's repeated attempts to reconsider the '051 summary judgment decision, which eliminated the majority of MercExchange's alleged damages.

after the Court issued the Markman decision, and after Mr. Robertson spoke to the media about it, MercExchange told the Court that "*Prior to [June 20001, eBay's system did not operate as an 'electronic market' as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*" (Merc. '265 Mot. for S.J. I-3 (Dec. 33, 3003) (emphasis added)). Now, in flat contradiction of its representations to the Court, MercExchange plans to tell the jury that Judge Friedman sua sponte "expanded" the '265 patent beyond the "market for goods . . . for sale," so that MercExchange may likewise "expand" its damages case *by a factor of five*, to $168 million. As set forth below, MercExchange's attempt to ignore the Court's February 14, 3003 order, reopen *Markman*, and disavow MercExchange's own repeated statements to the Court, requires sanctions.

III. ARGUMENT.

A. MercExchange and Dr. Weaver's attempt (AGAIN) to reargue the '051 patent and the section 112 ruling is inappropriate and requires sanctions.

The Court's February 14, 2003 order could not have been more clear. The '051 record is complete, and the MercExchange's next step in the litigation is appeal, following the final judgment on all three patents. *The '051 summary judgment record is closed.* MercExchange's attempt to serve the Weaver declaration again, buried in a February 36, 3003 "supplemental" expert report, is an inappropriate effort to end-run the Court's February 14, 2003 order, distort the record for appeal, and consume needless time and expense during the remaining expert discovery.

In addition, MercExchange cannot serve new inequitable conduct and damages reports on the '051 patent—which eBay would otherwise need to rebut. Consequently, the Court should strike Dr. Weaver's and Mr. Adelman's belated February 26, 3003 reports, and award eBay its costs and fees

in opposing MercExchange's continued efforts to relitigate the Court's '051 patent decisions.[7]

B. MereExchange cannot disavow its own repeated statements to Judge Friedman, reopen *Markman*, and present an entirely new '265 infringement and damages theory.

1. MercExchange is judicially estopped by its *Markman* and summary judgment arguments.

MercExchange told the Court—and eBay and the Wall Street Journal—that the '265 patent covers only a "market for goods . . . for sale"—*i.e., fixed-price sales*. In fact, during the '265 patent cross-motions for summary judgment, MercExchange said: "*Prior to the meeting, eBay's system did not operate as an 'electronic market' as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*" (Merc. '265 Mot. for S.J. 1-3 (Dec. 23, 3002) (emphasis added)).

MercExchange prevailed, in part, on the cross-motions for summary judgment—*because the Court denied eBay's motion for summary judgment*. In addition, MercExchange prevailed, in part, at *Markman*, when it argued that the '265 patent covers only *fixed-price sales*. MercExchange stated, in no uncertain terms:

> eBay's reliance on a 1999 Wall Street Journal article is unavailing. . . . And with respect to the '265 Patent, in 1999, eBay operated solely in the "auction" mode. *It was not until November of 2000, when eBay adopted a "market" mode with its "Bur It Now" feature, that they*

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[7] Dr. Weaver's February 26, 2003 expert report also contains a discussion of the '265 patent, which comprises an attorney argument and an attack on Dr. Wellman. Dr. Weaver repeatedly proclaims that his report contains nothing new, so the report serves no legitimate purpose, and the Court should strike it in its entirety.

> *fell within the claims of the '265 Patent.* Accordingly, the statement as incorrectly quoted was believed true at the time it was made.

(Merc. Reply Markman Br. at 30 (July 23, 2002) (emphasis added)). MercExchange has repeatedly told the Court that the '265 patent covers *only fixed price sales* (*and eBay agreed with it to that extent*). MercExchange cannot disavow its arguments now, after it defeated eBay's '265 motions for summary judgment and prevailed, in part, at *Markman*.

As the Supreme Court recently observed, the doctrine of judicial estoppel "prevents a party from prevailing in one phase of a case on an argument and then relying on a contradictory argument to prevail in another phase." *New Hampshire v. Maine*, 532 U.S. 742, 749 (2001). The doctrine is necessary "to protect the integrity of the judicial process," and prevents a party from playing fast and loose with the Courts. *Id.* at 743. *See also In re Cassidy*, 893 F.2d 637, 641 (7th Cir. 1990) ("Judicial estoppel is a doctrine intended to prevent the perversion of the judicial process."); *Allen v. Zurich Ins. Co.*, 667 F.3d 1163, 1166 (4th Cir. 1982) (judicial estoppel "protect[s the essential integrity of the judicial process."); *Scarano v. Cent. R.R. Co.*, 303 F.3d 510, 513 (3rd Cir. 1953) (judicial estoppel prevents parties from "playing 'fast and loose with the courts'").

Courts routinely hold that judicial estoppel prevents a patentee, like MercExchange, from trying to argue a new claim construction for a term after the parties *agreed* on the point at *Markman*. *See Stairmaster Sports/Medical Prods., Inc. v. Groupe Procycle, Inc.*, 25 F. Supp. 2d 270, 379-280 (D. Del. 1998), *aff'd* 333 F.3d 909 (Fed. Cir. 3000); *Superguide Corp. v. Direct TV Enters.*, 211 F. Supp. 2d 725 (W.D.N.C. 2002). For example, the *Stairmaster* patentee, like MercExchange, had *conceded an issue at the Markman hearing*, and thereafter, attempted to adopt a diametrically

opposed position based on the same claim language. The Court held:

> StairMaster's arguments are too late. StairMaster is judicially estopped from changing its position. . . . *The claim construction phase of this litigation has ended with StairMaster conceding and accepting Procycle's definition of this claim angle, including how it is measured.* It now wants to adopt a diametrically opposed position on the same claim language. StairMaster will not be permitted to play fast and loose with the Court. *Given its concession during the Markman hearing, StairMaster's assertion of a new position must be regarded as being made in bad faith.*

Stairmaster, 25 F. Supp. 2d at 279-280 (emphasis added). Here, as in *Stairmaster*, the claim construction phase of this litigation is *over*, with MercExchange and eBay *both* agreeing at *Markman* that the '265 "market for goods . . . for sale" covers only *fixed-price sales*. Given MercExchange's concessions before, during, and even *after* the *Markman* hearing—and Mr. Robertson's statements to the media about it—MercExchange's attempt to disavow its own statements at *Markman*, and its "assertion of a new position *must be regarded as being made in bad faith*." *Id.* at 380 (emphasis added).

Similarly, *Superguide* involved a case where a patentee, after *Markman*, attempted to disavow a previously-agreed construction. As in *Stairmaster*, the *Superguide* court held that judicial estoppel applied:

> At the claim construction stage of this litigation, Gemstar did not argue that "a desired start time" and "a desired end time" constituted a block or range of time. *See, e.g.*, Gemstar's *Markman* Brief, filed July 18, 2001, at 42. . . . Indeed, the EchoStar Defendants joined in that construction. . . . Gemstar's position is precluded by the

> doctrine of judicial estoppel which "is designed to prevent litigants from playing fast and loose with the courts."

Superguide, 211 F. Supp. 2d at 764-765. Consequently, the law is clear. *Markman* is long over, and MercExchange has repeatedly argued that the '265 "market for goods . . . for sale" covers only *fixed-price sales*—a point that was *undisputed at Markman*. MercExchange cannot disavow its own arguments now.

2. MercExchange had no excuse for waiting until February 27—over *four months after the Markman decision*—to disavow Markman and unveil an entirely new '265 infringement and damages theory.

MercExchange's new '265 infringement and damages theory is a thinly-veiled effort to sandbag the defendants on the eve of trial—and frivolously accuse the Court of adopting *sua sponte* a claim construction contrary to everything that *both* sides agreed. MercExchange has had the *Markman* ruling since *October*, and even after that time, MercExchange refused to update its expert reports, and repeatedly argued and represented to the Court that the '265 patent "market for goods . . . for sale" covers only *fixed-price sales*.

MercExchange is *again* attempting to reopen, reconsider, and reargue *Markman*—and disavow MercExchange's own statements to the Court in its summary judgment brief.

> [I]n numerous motions and letters submitted to the court since the *Markman* Opinion was entered, the plaintiff has yet to raise a challenge to the claims constructions therein. Moreover, in the plaintiff's own post-*Markman* Motion for Partial Summary Judgment, it argues that eBay is a trusted network and acts as a trusted intermediary. How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it

> lacks any substantial basis upon which to proceed is completely disingenuous.

(February 14, 2003 Order at 7-8). Just as MercExchange's '265 summary judgment motion proclaimed that MercExchange knew what a "trusted intermediary" was—MercExchange's '265 motion for summary judgment proclaimed that the '265 "market for goods . . . for sale" was limited to the fixed-price sales format. "*Prior to the meeting, eBay's system did not operate as an 'electronic market' as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*" (Merc. '265 Mot. for S.J. 1-2 (Dec. 23, 3002) (emphasis added)).

MercExchange cannot possibly reconcile its conduct or escape the consequences of its own actions. Thus, eBay and Half.com respectfully request the Court strike the February 27, 2003 Troxel/Evans report, and award eBay and Half.com their costs and fees incurred in preparing and filing this motion.

IV. CONCLUSION.

MercExchange refuses to accept the *Markman* decision and the Court's '051 section 112 ruling. The Court's February 14, 2003 order was clear, yet MercExchange *again* has attempted to violate it. Consequently, eBay and Half.com respectfully request the Court strike MercExchange's February 26, 2003 "supplemental" reports, and award eBay its fees and costs. Similarly, eBay and Half.com also request the Court strike the belated, February 27, 2003 "joint" report of Drs. Troxel/Evans, which attempts to reopen, reconsider, and reargue *Markman* and disavow what both sides have agreed and represented to the Court.

Dated: March 3, 3003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC., a Delaware Corporation, and HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

MEMORANDUM IN SUPPORT OF EBAY AND HALF.COM'S MOTION IN LIMINE No. 1:

MOTION TO EXCLUDE EVIDENCE OF INSOLVENT RETURNBUY'S "CONFESSION" AND LICENSE/SETTLEMENT AGREEMENT WITH MERCEXCHANGE.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT – FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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I. INTRODUCTION.

eBay respectfully requests the Court exclude any reference to, or reliance on, the so-called ReturnBuy "confession" and settlement agreement/license agreement with MercExchange. During secret negotiations, ReturnBuy's CEO explained to MercExchange that his company was deep in insolvency and attempting to sell all of its assets. As ReturnBuy spiraled toward liquidation, MercExchange offered to dismiss the case if ReturnBuy would "confess" to infringement and point the finger at eBay. The resulting "confession" and accusation against eBay, which Mr. Woolston touted to the national media and the Court, is extraordinarily prejudicial, completely unreliable, and plainly inadmissible.

- First, after the parties briefed this issue on eBay 's January 21. 2003 motion to strike, the Court entered an order on February 26, 2003, dismissing ReturnBuy and stating: "Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Halfcom, and MercExchange in this case."
- Second, the ReturnBuy "confession" came long *after* the close of discovery. eBay attempted to take discovery into it but MercExchange *refused.* Allowing evidence of the ReturnBuy "confession" would violate the Court's scheduling orders, and deprive eBay of its fundamental due process rights.
- Third, the ReturnBuy "confession"/license/settlement is inadmissible hearsay under FED. R. EVID. 801, not covered by any exception.
- Fourth, the ReturnBuy "confession"/license/settlement—extracted from an insolvent company in the midst of selling its assets—has no probative effect whatsoever, yet is extraordinarily prejudicial. ReturnBuy's assets have now been purchased by

another company, Jail Circuit, which is operating the former ReturnBuy cite, but *declined* to accept the exorbitant ReturnBuy license. Thus, the "valuable license" has been abandoned, and the meaningless "confession"/license/settlement is inadmissible under FED. R. EVID. 403.

- Fifth, the ReturnBuy "confession"/license/settlement—an inherently unreliable "confession" about pending *legal issues*—is an inadmissible opinion FED. R. EVID. 701.

Thus. eBay and Half.com respectfully request the Court exclude any evidence of the ReturnBuy "confession"/license/settlement, and any expert opinions purporting to rely on it.

II. BACKGROUND.

A. As ReturnBuy descended toward insolvency and asset liquidation, MercExchange contacted ReturnBuy, circumventing litigation counsel, and extracted a sham "confession" in exchange for a dismissal of the case.

eBay and Half.com filed a post-*Markman* motion for summary judgment regarding the '265 patent on November 15, 2002. With eBay's '265 post-*Markman* motion for summary judgment pending, Mr. Woolston and MercExchange adopted a new strategy. One of the defendants in the case, ReturnBuy, was deep in insolvency. (McFarland Decl. Ex. 1 (Benn Decl. ¶2)). By mid-December 2002, ReturnBuy's condition had become hopeless, and ReturnBuy's CEO, Walt Shill, had unsuccessfully spoken with dozens of entities in an effort to find a purchaser for the company or its assets. (*Id.* ¶¶2-3). With ReturnBuy insolvent, Mr. Shill concluded that he had a duty to liquidate the company for the benefit of its creditors. (*Id.* ¶3). After dozens of failures, Mr. Shill finally found a potential buyer. (*Id.* ¶¶2-3). However, Mr. Shill had to resolve the Merc-Exchange litigation to proceed with the possible asset sale. (*Id.* ¶3).

Mr. Shill told MercExchange that ReturnBuy was in dire straights and planning to sell its assets. (*Id.* ¶4). MercExchange offered to drop the case against ReturnBuy in exchange for a "confession" and an accusation against eBay. (*Id.* ¶4); (McFarland Decl. Ex. 2). Return-Buy agreed. Because it had reached a point of insolvency and was attempting to sell its assets. (McFarland Decl. Ex. I (Benn Decl. ¶4)).

Thus, MercExchange dropped any claim against Return-Buy for past "infringement" of the '265 patent, and Mr. Shill "confessed" that ReturnBuy had infringed the '265 patent. (McFarland Decl. Ex. 2 and 3). MercExchange even insisted that non-lawyer Shill "con-fess" that the '051 patent was "valid"—*contrary to the orders of the Court*—and that all of the Woolston patents were "valid" and "enforceable." (McFarland Decl. Ex. 3). MercExchange also extracted Mr. Shill's "confession" that eBay had "induced" and "contributed" to ReturnBuy's supposed "infringement" of the '265 patent claims. (McFarland Decl. Ex. 2). Finally. MercExchange insisted that Mr. Shill agree to an exorbitant "license" of the '265 patent for the future—but *ReturnBuy had no future*. As would become clear later, MercExchange planned to argue to the Court and the media that the exorbitant ReturnBuy "license" was evidence of the rate that eBay should pay.

In the meantime, Woolston kept eBay and its counsel busy with Woolston's holiday season *pro se* assault against eBay's expert, Commissioner Gerald Mossinghoff. eBay's attorneys, from McGuire Woods and Cooley Godward, worked to obtain expedited relief so that Commissioner Mossinghoff could defend himself both in this Court and in the Virginia State Bar. Neither eBay, nor any of the McGuire Woods or Cooley Godward attorneys, were involved in the ReturnBuy/MercExchange "confession" negotiations.

B. MercExchange moved for summary judgment of "willful infringement" of the '265 patent, touting the ReturnBuy "confession" to the media and the Court.

Three days after the Court ended Mr. Woolston's pursuit of Commissioner Mossinghoff, on December 23, 2002, MercExchange made an announcement. ReturnBuy had "confessed," supposedly proving that eBay was a "knockoff" of the Woolston patents: "MercExchange claims the settlement validates its claim that eBay's auction system is a knockoff of the process it patented in 1995." (McFarland Decl. Ex. 4 (Troy Wolverton, *Will eBay End up Paying for its Own Auctions?*) (Dec. 23, 2002)). Although ReturnBuy was insolvent and in the midst of an asset sale, Mr. Woolston touted the deal as an important "milestone" that established "fair and reasonable" terms:

> Woolston said he too was pleased with the settlement, calling it a "milestone" in the case. "It's an important development for us to have a large member of the eBay community license us on fair and reasonable terms," Woolston said. "It can only help the cause for us to vindicate our rights."

(*Id.*) That same day, MercExchange filed its motion for summary judgment of "willful infringement" of the '265 patent, arguing that the ReturnBuy "confession"/settlement proved that eBay had "will-fully infringed" Woolston's '265 patent. MercExchange emphasized that ReturnBuy "admitted" that the '051 Patent (which this Court has held invalid, and which was never even asserted against ReturnBuy), was "valid and enforceable":

> Moreover, Co-Defendant ReturnBuy, Inc. ("ReturnBuy") has *now conceded its direct infringement of the '265 patent*. Just last week, *ReturnBuy confessed* that it infringed seven claims of the '265 Patent, including five independent claims. *See* Declaration of Brian M. Bu-

> roker ("Bunker Dec.") Ex. 00. Further, *ReturnBuy also admitted that the '265 Patent, as well as the '176 and '051 Patents are valid and enforceable. Id.*, Ex. PP.

Merc. S.J. Br. at 2 (12/23/02) (emphasis added). In an effort to paint eBay as a criminal whose cohort had turned state's evidence, MercExchange proclaimed that ReturnBuy had "Confessed" that eBay had "induced and contributed" to ReturnBuy's supposed infringement:

> Most importantly, however, ReturnBuy affirmatively acknowledged that *eBay induced and contributed to ReturnBuy's direct infringement of the claims of the 265 Patent.* [citing Buroker declaration] Thus, it is hard to imagine a clearer case of willful infringement.

Merc. S.J. Br. at 3 (12/23/02). MercExchange failed to inform the Court that it knew that ReturnBuy was deep in insolvency, and the "confession" meant nothing.

eBay's counsel, McGuire Woods and Cooley Godward, had also been counsel of record for ReturnBuy but had no involvement whatsoever in the secret MercExchange/ReturnBuy negotiations. Recalling that MercExchange had directly contacted eBay's expert, Commissioner Mossinghoff, and ordered him to withdraw, eBay asked MercExchange whether any MercExchange attorneys had circumvented ReturnBuy counsel and communicated directly with the ReturnBuy. (McFarland Decl. Ex. 5 (Letter from Jeffrey Randall to Gregory Stillman) (Jan. 7. 2003)). MercExchange refused to respond.

Thereafter, eBay requested discovery, pursuant to the Court's Order authorizing it, to oppose MercExchange's summary judgment motion, but MercExchange refused, proclaiming that the "confession" entitled it to summary judgment. MercExchange did not admit that ReturnBuy was insolvent—even though it was *bankrupt*—and argued that *if*

ReturnBuy was insolvent, the license was a "valuable asset" that ReturnBuy could sell:

> Even if true, that very purported 'insolvency' provides compelling reason for resolving this lawsuit with MercExchange. For example, the license agreement provides that it could be assigned upon the sale of substantially all of the assets of ReturnBuy. Accordingly, the license agreement itself could be a valuable asset for ReturnBuy to convey. . . . Furthermore, if the license agreement is conveyed as part of an asset sale, MercExchange stands to receive significant revenues from royalties from the purchaser, perhaps a company better suited to exploit MercExchange's intellectual property rights.

(Merc. Opp. to eBay's Motion to Strike at 13 (Feb. 3, 2003)). Thus, MercExchange urged the Court to grant summary judgment against eBay, based on the sham confession and "license."

C. MercExchange asked the Court to sign a judgment against ReturnBuy that MercExchange could use to attack eBay.

MercExchange also asked the Court, *in a letter and without filing a motion and giving eBay an opportunity to be heard*, to enter a judgment endorsing the ReturnBuy "confession" that Merc-Exchange could use against eBay. On February 26, 2003, the Court entered the order dismissing ReturnBuy, but stated: "*Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com, and MercExchange in this case.*"

In the meantime, ReturnBuy's assets, including the "valuable license" from MercExchange, went up for sale in bankruptcy. Jabil Circuit, a company able to recognize a sham "license" when it sees one, purchased "*substantially all*" of ReturnBuy's assets and license agreements, *with one glaring*

exception—Jabil Circuit did not accept the MercExchange license agreement. The Bankruptcy Court order stated:

> *Jabil has not purchased or taken by assignment any of the Debtor's [ReturnBuy's] agreements or licenses with Merc-Exchange, L.L.C. and is therefore not bound by any admissions or agreements made by Debtor in such agreements or licenses.*

(McFarland Decl. Ex. 6 (*In re ReturnBuy, Inc.* Order Approving Asset Purchase Agreement with Jabil Global Services, Inc. Authorizing the Sale of Substantially All Assets, C.N. 03-10324-SSM (Mar. 4, 2003) (emphasis added)).

Undeterred, MercExchange plans to introduce the meaningless ReturnBuy "confession" at trial.

ARGUMENT.

A. The Court's February 26, 2003 order indicates that the ReturnBuy judgment has no effect on the remaining claims or defenses in the case.

The Court's February 26, 2003 order is clear: "Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com, and MercExchange in this case." Nonetheless, MercExchange again attempts to relitigate an issue, and asks the Court to allow it to introduce the plainly inadmissible, yet extraordinarily prejudicial, license and settlement agreements. As set forth below, the Court should reaffirm its order, and exclude the inadmissible evidence of the ReturnBuy "confession"/license/settlement.

B. The ReturnBuy "confession" evidence should be excluded because it would violate the Court's orders, and deprive eBay of its due process rights:

MercExchange has refused any discovery into the alleged Return-Buy "confession," depriving eBay of its right to cross-examination, an essential aspect of due process:

> For two centuries past, the policy of the Anglo-American system of evidence has been to regard the necessity of testing by cross-examination as a vital feature of the law. The belief that no safeguard for testing the value of human statements is comparable to that furnished by cross-examination, and the conviction that no statement (unless by general exception) should be used as testimony until it has been probed and sublimated by that test, has found increasing strength in lengthening experience. . . . It is beyond doubt the greatest legal engine for the discovery of truth.

United States v. Medico, 557 F.2d 309. 321 (2d Cir. 1977) (citation omitted). *See also California v. Green*, 399 U.S. 149, I58 (I970) (agreeing that cross-examination is "the greatest legal engine ever invented for the discovery of truth"): *Taylor v. Illinois*, 484 U.S. 400, 410-11 (1988) ("The adversary process could not function effectively without adherence to rules of procedure that govern the orderly presentation of facts and arguments to provide each party with a fair opportunity to assemble and submit evidence to contradict or explain the opponent's case.").[1]

After MercExchange filed its summary judgment motion, based in part on the ReturnBuy "confession," eBay repeatedly requested the discovery pursuant to the Court's April 8 and April 9 orders. (McFarland Decl. Ex. 7 (Letter from Jeffrey Randall to Gregory Stillman) (Dec. 26, 2002) and Ex. 8

---

[1] As the Fourth Circuit has observed, evidence "supplied through the lips of witnesses is subject not only to the possible infirmities of falsification or bias: it is also subject to the inaccuracies which inevitably flow from the fallibility of human powers of observation, memory, and description." *United States v. Caudle*, 606 F.2d 451, 457 (4th Cir. 1979). In fact, the "annals of the legal profession are filled with instances in which testimony, plausible when supplied on examination in chief, has by cross-examination been shown to be, for one or more of the reasons mentioned, faulty or worthless." *Id.* (citation omitted).

(Letter from Jeffrey Randall to Gregory Stillman) (Dec. 30, 2002)).

> MercExchange has not produced all of the necessary documents and information required under the Court's order. First, although MercExchange is attempting to rely on the Return-Buy/MercExchange pact as substantive evidence in support of its motion. MercExchange has failed to produce any drafts or other documents exchanged between MercExchange and ReturnBuy. As our firm was not involved in the negotiations between MercExchange and ReturnBuy, we do not have these documents and have never seen them. MercExchange has no basis to withhold these materials, which are not privileged. Please produce these documents immediately.

(McFarland Decl. Ex. 9 (Letter from Jeffrey Randall to Gregory Stillman (Jan. 8, 2003)).

MercExchange refused. Thus, the Court should strike the declarations and evidence. *See* FED. R. CIV. P. 37(a)(4)(B), 37(b)(2). *See also Hathcock v. Navistar Int'l Transp. Corp.*, 53 F.3d 36, 40 (4th Cir. 1995); *Rabb v. Amatex Corp.*, 769 F.2d 996, 999-1000 (4th Cir. 1985); *Hatton v. Spencer (In re Hatton)*, 204 B.R. 477, 485-86 (ED. Va. 1997) (Rule 37(b)(2) provides that a court may sanction a non-complying party by refusing to allow introduction of designated matters in evidence).

C. Evidence of the ReturnBuy "confession" is classic hearsay opinion, inadmissible as a matter of law.

The ReturnBuy "confession"/settlement is inadmissible hearsay, not subject to any exception. *See* FED. R. EVID. 801, 802. *See also Evans v. Tech. Applications & Serv. Co.*, 80 F.3d 954, 962 (4th Cir. 1996) (granting motion to strike any hearsay materials improperly relied upon in a summary judgment motion); *Contracts Materials Processing, Inc. v.*

Kataleuna GmBh Catalysts, 164 F. Supp. 2d 520, 527-28 (D. Md. 2001). ReturnBuy is no longer a party to this case, and its meaningless "confession" cannot be used against the remaining parties as a matter of law. In fact, the ReturnBuy confession is exactly the sort of unreliable and inappropriate "evidence" that the hearsay rule is designed to preclude.

D. Evidence of the ReturnBuy "confession" is inadmissible lay opinion.

The ReturnBuy "confession," even if taken at face value, is nothing more than an inadmissible lay opinion regarding patent law issues, including infringement, validity, and inducement. *See* FED. R. EVID. 701(c). *See* Committee Note to 2000 Amendment to Rule 701 ("The amendment makes clear that any part of a witness' testimony that is based upon scientific, technical, or other specialized knowledge within the scope of Rule 702 is governed by the standards of Rule 702 and the corresponding disclosure requirements of the Civil and Criminal Rules."); *See, e.g., Evans*, 80 F.3d at 962 ("Because, again, we generally consider self-serving opinions without objective corroboration not significantly probative, the decision to strike and disregard as irrelevant Evan's assertions was not improper.").

E. Evidence of the ReturnBuy "confession" is inadmissible under Rule 403.

The ReturnBuy "confession"/settlement has no legitimate probative value, yet would undeniably have an improper prejudicial effect. ReturnBuy was insolvent, and the "confession" and accusation against eBay enabled ReturnBuy to move ahead with its bankruptcy without giving MercExchange anything. ReturnBuy's assets now belong to Jabil Circuit, which did not accept the ReturnBuy license or "confession," and as the Eastern District Court has held, is not bound by it.

> *Jabil has not purchased or taken by assignment any of the Debtor's [ReturnBuy's] agreements or licenses with*

MercExchange, L.L.C. and is therefore not bound by any admissions or agreements made by Debtor in such agreements or licenses.

(McFarland Decl. Ex.6 (In re ReturnBuy, Inc. Order Approving Asset Purchase Agreement with Jabil Global Services, Inc. Authorizing the Sale of Substantially All Assets, C.N. 03-10324-SSM (Mar. 4, 2003) (emphasis added)).

Nonetheless, MercExchange has incorrectly suggested that patent license agreements are immune from the rules of evidence, and are routinely admitted. In fact, the Courts view such evidence with suspicion. *See, e.g., EWP Corp. v. Reliance Universal, Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985) ("Such [licensing] programs are not infallible guides to patentability. They sometimes succeed be-cause they are mutually beneficial to the licensed group or because of business judgments that it is cheaper to take licenses than to defend infringement suits, or for other reasons unrelated to the unobviousness of the licensed subject matter."); *Lyle/ Carlstrom Assoc., Inc. v. Manhattan Store Interiors, Inc.*, 635 F. Supp. 1371, 1384 (E.D.N.Y. 1986), *affd*, 824 F.2d 977 (Fed. Cir. 1987) ("there are no clear inferences about the prospects for success at the trial that can be drawn from the settlement of an infringement action. Settlement may reflect a desire for peace, a plaintiffs superior economic resources, or a defendant's business decision to avoid lengthy and costly litigation."); *John E. Thropp's Sons, Co. v. Seiberling*, 264 U.S. 320, 329-30 (1924) (noting that patents may be "well calculated to induce acquiescence by those without sufficient knowledge of the prior art or adequate capital to resist" and where a "license was not a heavy tax . . . purchase of peace was a wise course"); *Newell Window Furnishing Inc. v. Springs Window Fashions Div. Inc.*, 53 U.S.P.Q.2d 1302, 1326 (N.D. Ill. 1999) *aff'd in part, rev'd in part*, 2001 WL 744460 (Fed. Cir. 2001) ("license and consent judgment are of limited value as objective indicia of non-obviousness. The

evidentiary value of such licenses and con-sent judgments lies in the assumption that the concessions made therein by a competitor are against the competitor's best interests . . . it is clear that [the licensee] entered into settlement to avoid costs of future litigation."); In re GPAC Inc., 57 F.3d 1573, 1580 (Fed. Cir. 1995) ("Licenses taken under the patent in suit may constitute evidence of nonobviousness; however, only little weight can be attributed to such evidence if the patentee does not demonstrate 'a nexus between the merits of the invention and the licenses of record.'").

The overreaching ReturnBuy "confession," signed by a lay-person on the eve of filing bankruptcy, has no probative value and is highly prejudicial. It will almost certainly confuse the jury, which may gather the false impression that eBay's counsel—which was also ReturnBuy's counsel—had some-thing to do with it, when in fact, MercExchange negotiated the "confession" directly with Return-Buy, behind litigation counsel's back.

Thus, the Court should exclude the evidence under FED. R. EVID. 403. If the ReturnBuy "confession" proves anything, it demonstrates only that MercExchange was willing to circum-vent ReturnBuy's litigation counsel, and drop its '265 patent claims against Return-Buy for *nothing*.

IV. CONCLUSION.

The Court should exclude all reference to, and evidence of, the ReturnBuy "confession"/license settlement at trial.

Dated: March 24, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., and
RETURNBUY, INC., Pennsylvania Corporation,
Defendants.

MEMORANDUM IN SUPPORT OF
EBAY AND HALF.COM'S MOTION IN LI MINE No. 2:

MOTION TO EXCLUDE EVIDENCE OF
MERCEXCHANGE'S SELF-DEALING LICENSE
"AGREEMENTS" WITH ADEN ENTERPRISES,
LEFTBID.COM, AND NAVLET.COM AS PROOF OF
VALIDITY AND "DAMAGES."

FILED UNDER SEAL
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I. INTRODUCTION.

eBay respectfully requests the Court exclude any reliance on MercExchange's self-dealing license "agreements" with Aden Enterprises and its subsidiaries, Leftbid.com and Navlet.com, as proof of validity or "damages." The agreements are sham products of self-dealing between jointly-owned companies, signed with Mr. Woolston as an executive officer and co-owner of MercExchange and each of the licensees. The licenses are in no way probative of the value or commercial success of the patents-in-suit, and should be excluded as proof of validity or damages under Federal Rule of Evidence 403 for at least the following three reasons:

- First, the principals involved with the purported licenses have openly acknowledged that they were not arm's length transactions. Indeed, each "agreement" was signed while: (1) Mr. Woolston was simultaneously serving as an executive for MercExchange and each licensee; (2) MercExchange held an ownership interest in each licensee; and (3) Aden held an ownership interest in MercExchange.
- Second, Aden's CEO testified that the parties to the agreements did not necessarily consider themselves bound by their terms and, in fact, Aden and MercExchange at times either entered agreements with no intent to act upon them or would "do[] things contractually purportedly . . . where we didn't necessarily either document them properly, we didn't execute properly, or didn't understand necessarily the consequence." If the parties to the agreement did not understand which terms were merely "purported" and which were "documented properly," the jury should not be burdened with making that determination for them.

- Third, the purported licenses were signed after Mr. Woolston—a patent attorney with full knowledge of how infringement damages are calculated—resolved to sue eBay. In fact, one of the "agreements" was entered only after MercExchange and Aden contracted to share in the proceeds from the present lawsuit. Not surprisingly, MercExchange now relies on these purported agreements and their artificially inflated terms as the centerpiece of its damages case.

Despite these undisputed facts, MercExchange plans to offer the agreements as "objective evidence" that the patents-in-suit are valid, and relies upon them as a basis for calculating the damages it seeks. The agreements carry no probative value on either point, and instead may confuse the jury and have an unduly prejudicial effect. Like the sham ReturnBuy "confession" and license (*See* Defendants' Motion in Limine No. 1), the "Aden family" agreements are manufactured evidence, with litigation in mind. Thus, the Court should exclude any reliance on the Aden, Navlet, and Leftbid licenses as proof of validity or damages.

II. BACKGROUND.

A. Mr. Woolston was a high-ranking executive and co-owner of Aden, Navlet, Leftbid, and MercExchange.

In 1995, Pierre Omidyar, an engineer, and Thomas Woolston, a patent lawyer, had two fundamentally different views of how to run an Internet business. Over several months, Mr. Woolston spent his spare time writing a patent application describing a cumbersome trusted intermediary system. In less than a week, Mr. Omidyar wrote the software for a person-to-person auction system that became eBay. In November 1995, as Mr. Omidyar's system was growing in popularity, Woolston rewrote and refiled his application with the Patent Office.

While Mr. Omidyar's person-to-person auction site was becoming one of the world's most respected e-commerce businesses, Woolston attempted to partner with MCI WorldCom.[1] (McFarland Decl. Ex. 1 (e-mail from T. Woolston to R. Smith at MCI (Jan. 15, 1996))).

WorldCom rejected Woolston's proposal, as did a series of venture capitalists, travel agencies, web developers, antique dealers, art retailers, and George Mason University. *(See, e.g.,* (McFarland Decl. Exs. 2-4 (Letters from T. Woolston to Washington Antique Center (June 1, 1998); to Wavelynx, L.L.C. (June 20, 1997); and George Mason University (Nov. 14, 1997)).

In early 1999, Mr. Woolston and his company, MercExchange, finally found a partner in Michael Luther and his company. Aden Enterprises, an Omaha, Nebraska holding company. Mr. Woolston and Mr. Luther entered into an agreement through which Aden and MercExchange obtained twenty-five and ten percent ownership interests in one another. (McFarland Decl. Ex. 5 (Letter from M. Luther to T. Woolston (Jan. 19, 1999))).

Aden and MercExchange planned to sue eBay, ultimately entering a "Patent Enforcement Agreement" to jointly fund, and share in any recovery from, any patent infringement action against eBay. (McFarland Decl. Ex. 6 (Patent Enforcement Agreement by and between MercExchange, L.L.C. and Aden Enterprises, Inc.)).

Thereafter, Aden formed two subsidiary dot-com companies, Leftbid and Navlet, creating the "Aden Family" of companies, including: (1) Aden Enterprises, (2) Leftbid.com, (3) Navlet.com, and (4) MereExchange. Few of the individuals involved understood the "nebulous" web of companies, and

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[1] WorldCom's less successful history may be reviewed at www.worldcomstockfraud.com and www.worldcomemriloveelawsuit.com.

MercExchange co-owner and "Aden family" attorney John Phillips did not even know which company employed him.

> Q. Who were you an employee of in 2000?
>
> A. Frankly, the answer is, I'm not entirely sure. It was a very nebulous situation. That's one of the primary reasons why I'm no longer there.

(McFarland Decl. Ex. 7 (Phillips TR 178:5-9)).

One thing, however, was clear—as his growing collection of business cards showed, Mr. Woolston was a co-owner and high-ranking executive officer in *each* of the Aden family of companies.

[image omitted]

B. The Aden/Navlet/Leftbid/MercExchange licenses are self-dealing.

On October 8, 1999—with MercExchange and Aden holding ownership interests-in one another, plans to sue eBay in place, and Mr. Woolston serving as an officer for both companies—Leftbid and MercExchange signed a license to Mr. Woolston's patents, which MercExchange now submits to the Court as evidence of validity and damages. (McFarland Decl. Ex. 8 (License Agreement By and Between Leftbid.com, Inc. and MercExchange, LLC (Oct. 8, 1999))).

Later that month—with MercExchange and Aden holding ownership interests in one another, plans to sue eBay in place, and Mr. Woolston serving as an officer for both companies—Aden and MercExchange retooled their original January agreement, significantly increasing Aden's obligation under the earlier license. (McFarland Decl. Ex. 9 (License Agreement By and Between Aden Enterprises, Inc. and MercExchange, LLC (Oct. 28, 1999))). When asked why Aden gratuitously decided to pay more for a license it already had, Aden's CEO, Michael Luther, said that the relationship between Aden and MercExchange had become "more expan-

sive" and explained the business rationale behind the new, inflated terms:

> Q. So on October 28th, 1999, why did you agree to give MercExchange 43 million more shares than you had earlier in the April 20th, 1999 agreement, for the same license?
>
> A. That's a really good question.
>
> Q. Do you recall any reasons?
>
> A. We thought he was really smart.

(McFarland Decl. Ex. 10 (Luther TR 114:10-16)). MercExchange now offers the terms of this "license" as evidence of validity and damages.

Finally, on March 1, 2000—with MercExchange and Aden holding ownership interests in one another, a contract in place to sue eBay, and Mr. Woolston serving as president of both companies—Navlet and MercExchange signed contract license to Woolston's patents. (McFarland Decl. Ex. 11 (License Agreement By and Between Navlet.com, Inc. and MercExchange, LLC (Mar. 1, 2000))).

MercExchange intends to offer all of the "Aden family" licenses as "arm's length" transactions, allegedly proving that the Woolston patents are valid and valuable.

III. ARGUMENT.

A. The Self-Dealing "Aden family" Licenses Are Inadmissible Under Rule 403. Federal Rule of Evidence 403 provides that, "[a]lthough relevant, evidence may be excluded if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury." FED. R. Evid. 403. The Aden, Leftbid, and Navlet agreements" are precisely the sort of evidence Rule 403 is intended to exclude. The agreements

have no probative value, may confuse the jury, and would prejudice defendants.

B. The Aden, Leftbid, and Navlet "agreements" were drafted and executed with a suit against eBay in mind and were not the product of arm's length negotiation.

1. None of the self-serving "agreements" were arm's length transactions.

By the time the "Aden family" first licensed the Woolston patents, Mr. Woolston, a patent lawyer, had already resolved to sue eBay, and knew that "arm's length" licenses would help him do it. However, the incestuous "Aden family" license agreements are not arm's-length transactions. MercExchange and Aden had ownership interests in each other, and together, they owned Leftbid and Nay let. (McFarland Decl. Ex. 5 (Letter from M. Luther to T. Woolston (Jan. 19, 1999))). Moreover, MercExchange held an ownership stake in each of its licensees, and Mr. Woolston served as an officer of each company while "negotiating" the licenses on behalf of MercExchange.[2]

- October 8, 1999: Lefibid.com—with Woolston as a Director and Chief Technology Officer and General Counsel of its parent company—entered a license agreement with MercExchange—with Woolston as Managing Director;
- October 28, 1999: Aden—with Woolston as General Counsel and Chief Technology Officer—entered a license agreement with MercExchange—with Woolston as Managing Director;

---

[2] (*See* McFarland Decl. Ex. 12 (Woolston TR 218:11-219:6 ("when we did those kind of transactions; I jumped into MercExchange . . . *There were definitely conflicts*") (emphasis added).

- March 1, 2000: Navlet.com—with Woolston as President and CEO—entered a license agreement with MercExchange—with Woolston as Managing Director.

Unlike typical license agreements resulting from arm's length negotiation, the "Aden family" agreements contained inflated, one-sided terms divorced from commercial reality.[3] Leftbid's CEO, Mark Borghi. pointed out the obvious flaw in the MercExchange license agreements:

> Q. Did it concern you or anyone else at Leftbid that Mr. Woolston being the CTO of Leftbid and managing member of MercExchange when he negotiated a license with Leftbid on behalf of MercExchange? . . .
>
> A Yeah, I was very upset. . . . I was upset because I felt that there was no arm's length transactions between us.

(McFarland Decl. Ex. 13 (Borghi TR 102:14-103:10) (emphasis added)).

> Q Were you upset that Leftbid would be tied to employing the subject matter of the pending or issued patents? Was that one of your concerns?
>
> . . .
>
> A My objection was that even when you're dealing with your partners, Tom Woolston that *there should be an arm's length transaction between these companies and I didn't feel that we're operating in that manner*. . . . That was my concern, not that this was a bad document or a

[3] The Aden, Naviet, and Leftbid licenses—like the abortive ReturnBuy license—provided for royalty payments based on a percentage of gross sales—a method that defies basic business sense.

> good document, it was just that I didn't think it was professionally done the way this was presented to me.

(McFarland Decl. Ex. 13 (Borghi TR 113:22-114:12))

Despite these glaring deficiencies, MercExchange now offers these distorted, self-serving "agreements" as the centerpiece of its damages calculations. To prevent such "evidence" from misleading juries, the Federal Circuit has stressed the circumstances surrounding the negotiation of a license agreement .determine its probative value. *Allen Archer, Inc. v. Browning Mfg. Co.*, 898 F.2d 787, 790 (Fed. Cir. 1990) ("In the absence of arm's-length bargaining, the prices at which Browning Mfg. sold to [its subsidiary] Browning were not a 'net selling price' under Allen's industry-wide licensing agreement which, as noted, the parties and the district court agreed was the proper basis for determining a reasonable royalty."); *Newell Window Furnishing Inc. v. Springs Window Fashions Division Inc.*, 53 U.S.P.Q.2d 1302, 1326 (N.D. Ill. 1999) *aff'd in part, rev 'd in part on other grounds*, 2001 WL 744460 (Fed. Cir. 2001) ("The evidentiary value of such licenses and consent judgments lies in the assumption that the concessions made therein by a competitor are against the competitor's best interests"). Because the agreements were not negotiated at arm's length, they have *no probative value* and should be excluded.

2. Aden and MercExchange admittedly entered into contracts they neither understood nor executed.

Aden's CEO, Michael Luther, testified that Aden and MercExchange would enter into. "purported" contracts and the terms of agreements between MercExchange and its licensees may not have reflected any real obligation for-either part?[4]:

---

[4] Indeed. Mr. Luther explained that Aden admitted in a December 1999 Leftbid offering circular that [a]t the present time, Aden does not have the

Q. So from time to time, Aden Enterprises and MercExchange would enter into contracts that they wouldn't act upon?

A. Yes.

(McFarland Decl. Ex. 10 (Luther TR 139:7-10) (emphasis added))

Q. Did you ever discuss with Mr. Woolston the grant of an exclusive license to MercTravel in the on-line travel sector a month-and-a-half after the same license was granted to Aden Enterprises?

A. I think this—*this is indicative of us doing things contractually purportedly,* and then catching up on things. . . . I think it has to do with the governance and administration in Aden was marginal at best, 'so *there were a lot of things that we did where we didn't necessarily either document them properly, we didn't execute properly, or didn't understand necessarily the consequence.*

Q. So given the fluidity of that situation with Aden, one might look at a contract for a given date between Aden and a company and it might not reflect the actual circumstances of a given date?

A. Could quite possibly be . . . it wouldn't surprise me.

(McFarland Decl. Ex. 10 (Luther TR 152:19.154:3) (emphasis added)). Mr. Woolston did not remember the terms of the Aden agreements, stating that he just "put it in the drawer":

Q What was the first agreement MercExchange ever entered into with Aden Enterprises?

---

financial resources necessary to exercise its right and meet its obligations under the [October 28, 1999 MercExchange] agreement." (McFarland Decl. Ex. 10 (Luther TR 119:5-14)).

A I believe it was January 1999.

Q What were the terms of that agreement?

A Jeff, you'd have to get it out and put it in front of me. When we negotiated the *deal, we put it in the drawer and we tried to make the relationship work.* That relationship got continually renegotiated and recodified in subsequent contracts and superseding contracts.

(McFarland Decl. Ex. 12 (Woolston TR 192:20-193:7)).

Q What monetary value did you place on what you got in return from Aden Enterprises in that January '99 agreement?

A What monetary value did I place in what we got in return for the Aden agreement—it was tough to put your finger on it. It was a partner. It was a partner. To me, *I value the relationship more than any other words of the contract.*

(McFarland Decl. Ex. 12 (Woolston TR 196:9-16) (emphasis added)).

If the "Aden family" members were unable to make sense of the agreements, no jury can. *See In re GPAC Inc.*, 57 F.3d 1573, 1580 (Fed. Cir. 1995) ("only little weight can be attributed to such evidence if the patentee does not demonstrate 'a nexus between the merits of the invention and the licenses of record.'"); *Newell Window Furnishing Inc.*, 53 U.S.P.Q.2d at 1326 ("The evidentiary value of such licenses and consent judgments' lies in the assumption that the concessions made therein by a competitor are against the competitor's best interests").

IV. CONCLUSION.

The Court should preclude MercExchange and *its* experts from relying on the self-dealing Aden, Leftbid, and Navlet

license agreements as proof of validity and damages, as set forth in the attached proposed order.

Dated: March 24, 2003

Respectfully submitted,

By: _____

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC., a Delaware Corporation, and HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

MEMORANDUM IN SUPPORT OF
EBAY AND HALF.COM'S MOTION IN LIMINE No. 4:

MOTION TO EXCLUDE ANY EVIDENCE OF, OR RELIANCE ON, THE MERCEXCHANGE/GOTO SETTLEMENT.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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I. INTRODUCTION.

eBay respectfully requests the Court exclude any reference to, or reliance on, the settlement agreement between MercExchange and GoTo.com regarding the '176 patent. As set forth in defendants' other motions in limine, MercExchange has repeatedly attempted to create self-serving "evidence" to use against eBay, including: an inadmissible and meaningless "confession" by insolvent ReturnBuy (Motion in Limine No. 1), a series of self-dealing transactions between members of the "Aden family," (Motion in Limine No. 2), and an admittedly irrelevant press release/agreement with eBay's rival, AutoTrader (Motion in Limine No. 3).

Like MercExchange's other attempts to create evidence, the MercExchange/GoTo settlement has no probative value in this case. As GoTo.com's corporate designee testified, GoTo had *already left* the allegedly infringing shopping business, and settling was *zero cost* to GoTo, as the funds came from an separate escrow account set up for such contingencies. Thus, GoTo had little incentive to continue litigating, and "we wanted basically never to deal with MercExchange again." (*See* McFarland Decl. Ex. 1 (Ryan TR 10:11-12.)

Consequently, the Court should enter the attached order, excluding any reliance on, or evidence of, the GoTo settlement and license. FED. R. CIV. P. 403.

II. BACKGROUND.

Before this suit, MercExchange sued GoTo for allegedly infringing the '176 patent. By June 1, 2001, GoTo had quit its (allegedly infringing) shopping business, and had decided to terminate its auction business as well. Thus, GoTo had little reason to continue to litigate the '176 patent, and it had access to an escrow account, established for such contingencies. Consequently, although GoTo already had a motion for summary judgment on file, GoTo decided to settle. (McFarland Decl. Exs. 2-4 (GoTo.com' Motion for Summary Judgment, GoTo.com's Statement of Undisupted Facts, Declaration of Arthur M. Keller). GoTo's corporate designee, Mr. Ryan, explained:

> Mr. Ryan, without telling me any confidential information, as your attorney has instructed you, can you please tell me the reasons for entering into the settlement agreement dated June 1, 2001 between GoTo.com and MercExchange?
>
> A. There are three primary reasons that we entered into the settlement, the first of which was *the settlement involved no cost to Overture.com or Overture Services or GoTo.com at the time*. The moneys in the escrow accounts associated with both our shopping and auction businesses were sufficient to cover both the settlement as well as the fees associated with the settlement.
>
> The second primary reason was that at the time of the settlement *we had already exited the shopping business* by closing down our shopping subsidiary, and we were investigating strategic alternatives for our auctions division, of which shutting it down or selling it were the two primary strategic alternatives. *We had decided to exit both of these businesses*.

> The third primary reason was we didn't—we wanted basically never to deal with MercExchange again on topics related to this form of case.

(McFarland Decl. Ex. 1 (Ryan TR 9.21-10:3)). Thus, GoTo had little incentive to litigate further, and settled the case for the less than the amount in the escrow account—a "zero cost" settlement for GoTo (now known as Overture).

> [T]he settlement amount in addition to the cost of litigation was satisfied by the escrow accounts, so there was no, you know—there was just financial reasons to settle it at that point, considering it was at zero cost to Overture [GoTo].

(McFarland Decl. Ex. 1 (Ryan TR 20:8-12) (emphasis added)).[1]

III. ARGUMENT.

A. The zero-cost GoTo agreement does not establish a "reasonable royalty."

MercExchange argues that the GoTo Agreement establishes a "reasonable royalty" for Mr. Woolston's patents. (McFarland Decl. Exs. 5-6 (Evans Rep. at 22, Ex. B at 1; Troxel Rep. at 16-17.) However, MercExchange ignores the black letter law, which holds that such agreements are unreliable:

> It is a century-old rule that royalties paid to avoid litigation are not a reliable indicator of the value of a patent, and should therefore be disregarded when determining reasonable royalty rates. This is because royalties paid

---

[1] The GoTo designee, Mr. Ryan, testified that "the escrow accounts were established at the acquisition of both our shopping subsidiary and our auctions subsidiary, and they were set aside for contingencies such as this. The moneys in the escrow account at the time of the settlement were sufficient to pay not only the settlement, but also the fees associated with the settlement." (McFarland Decl. Ex. 1 (Ryan TR 10:24-11:6)).

> under threat of suit may reflect the licensee's desire to avoid the risk and expense of litigation.

Wang Labs., Inc. v. Mitsubishi Elec. Am., Inc., 860 F. Supp. 1448, 1452 (C.D. Cal. 1993) (citing *Rude v. Wescott*, 130 U.S. 152, 164 (1889)); *see also Cornely v. Marckwalkd*, 131 U.S. 159, 160-161 (1889) (holding that ten licensing agreements did not prove an established royalty rate because all were formed in settlement of litigation).

> [A] royalty, if any, resulting from [settlement of a prior litigation] should not be considered evidence of an "established" royalty and thus a measure of adequate damages here. . . . License fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation.

Studiengesellschaft Kohle, m.b.H., v. Dart Indus., Inc., 862 F.2d 1564, 1572 (Fed. Cir. 1988) (quoting *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1164, n.11 (6th Cir. 1978) (internal cites and quotations omitted)).

B. The GoTo agreement does not prove the patents are valid.

MercExchange incorrectly contends that the GoTo Agreement is relevant to showing "commercial success and non-obviousness of the '176 Patent." In fact, the GoTo agreement merely illustrates that MercExchange, with its "litigious nature," was able to capitalize on unique situation—GoTo had access to escrow accounts set up for such contingencies, had discontinued its allegedly infringing shopping business, and thus, was able to pay the settlement at "zero cost." In fact, although GoTo signed the license agreement, it had contested the validity and infringement of the '176 patent, and had a motion for summon,' judgment pending. GoTo settled because it had left the business, could settle for zero cost, and "we wanted basically never to deal with Merc-

Exchange again." (*See* McFarland Decl. Ex. 1 (Ryan TR 10:11-12.)

MercExchange's strategy is not new, and it does not prove that the Woolston patents are valid. While "it is not unusual to see astute businessmen capitalize on [the issuance of a patent] by erecting a temporarily successful licensing program," such licensing "programs are not infallible guides to patentability." *EWP Corp. v. Reliance Universal Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985) (holding patent invalid under Section 103 despite existence of licensing program). In particular, when it is "cheaper to take licenses than to defend infringement," a license does not prove that a patent is valid. *See Id.*

Thus, the GoTo.com Agreement has no bearing on obviousness of the '176 patent, and the Court should preclude MercExchange from relying on it for any purpose at trial.

IV. CONCLUSION.

Like the rest of MercExchange's "licensing program," addressed in Defendants' Motions in Limine Nos. 1-3, the GoTo Agreement proves only that MercExchange is opportunistic. The Court should exclude the GoTo Agreement and settlement, as set forth in the attached proposed order.

Dated: March 24, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

CASE NO. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

VS

EBAY, INC., HALF.COM, INC. and RETURNBUY, INC.,
Defendants.

EXCERPTED DEPOSITION OF JEFFREY KRAUSS

DATE: March 25, 2003

TIME: 10:07 a.m.

LOCATION: COOLEY GODWARD, LLP
Five Palo Alto Square Third Floor
San Jose, California

* * * *

[21] off, why don't you try and explain to me, if you could, prior to this last month where you transitioned away, what your job responsibilities entailed.

A. My job responsibilities entailed making it easier for users on eBay to use the PayPal payment system.

Q. And is that a role you took on since the acquisition of PayPal?

A. Yes.

[22] Q. The Billpoint system was also known as eBay Payments; correct?

A. Yes.

Q. At some point Billpoint rebranded itself to be eBay Payments; correct?

A. Yes.

Q. What's your understanding as to why Billpoint rebranded itself to be eBay Payments?

THE WITNESS: I should also say that it was oftentimes referred to as eBay Payments by Billpoint.

Q. Is it called eBay Payments online by Billpoint?

A. It went through a number of different [23] changes. There had been an eBay online Payments by Billpoint, eBay Payments by Billpoint. Sometimes for shorthand it was referred to as eBay Payments as well.

Q. Okay. At some point did it have the tag line "eBay Payments, The eBay Way to Pay"?

A. Yes.

Q. Why did you think the change from Billpoint to eBay Payments would make the user feel more [24] comfortable using the service?

THE WITNESS: It makes a user feel like this is a service that is kind of—if you go to Amazon.com, you go through a payment flow which looks like Amazon.com, feels like Amazon.com. Same thinking here. By making a name that feels like it's on the eBay site, we thought it would make users feel more comfortable.

[25] Q. In other words, it would be sort of seamlessly integrated into the eBay web site; correct?

A. We use the term "seamlessly integrated," yes.

Q. Billpoint, I will represent to you, on its web page "About Us" indicates that "The eBay [26] community had long desired a payment solution that could be seamlessly integrated into the over-all eBay transaction experience."

Does that reflect the testimony that you've just given?

THE WITNESS: Yes.

Q. Okay. I mean, it's consistent with what you've just told me; correct?

A. What specifically is consistent?

Q. Let me read it to you again. I'm sorry. This was an exhibit yesterday. If Mr. Teter has one, maybe you can look on. But let me read it to you again.

It says, "The eBay community had long desired a payment solution that could be seamlessly integrated into the overall eBay transaction experience."

Is that sort of a fair assessment of what Billpoint was trying to do?

[27] THE WITNESS: Yes, I think what you're reading is some-thing that from a marketing perspective, yes, makes—it's correct.

Q. You said that your responsibilities as a senior product manager for eBay was attempting to make it easier to use online payment systems such as PayPal and Billpoint.

Can you tell me—give me some examples, sir, if you would, as to what specific things that eBay did with Billpoint or PayPal to try and make it easier for consumers to use that service?

A. We put buttons that said "Pay Now" onto the item listing page on eBay so that when an item closed, could you click on the button, and it would pass the user over to Billpoint to pay for the item.

Q. So if you clicked on that button, you'd go instantly to the Billpoint web site in order to pay for the item?

A. Well, originally there was a log-in—I [28] believe, because this was a few years ago, there was a log-in which verified that the user was, in fact, the winner of the item, and then we passed the user or the seller of the item, and then we passed the user directly to Billpoint.

Q. I'm sorry. Go ahead.

Any other examples besides this items listing with a link that would take you to Billpoint?

A. We did something we called Instant Purchase, which allowed a seller, when he listed an item, to specify shipping information and sales tax information, and when the item ended, then that information—when the user went to pay, that information would be passed over to Billpoint so that Billpoint could charge the user the correct total amount.

Q. Let me stop you there and ask you, when did you institute this instant purchase option, if you can recall?

A. I don't recall the exact time.

Q. More than a year ago?

[29] A. Yes.

Q. More than two years ago?

A. I believe so.

Q. Is it still available?

A. It's not available in that exact incarnation, but that functionality is still available.

Q. Okay. Is that available as part of the registration process for a seller, or is that part of the checkout process now?

A. That's more of the checkout process.

Q. Okay. And as part of the checkout process, is there a button or link that takes you directly—or at some point in time took you directly to Billpoint?

A. No, it did not take you directly to [30] Billpoint. It—the flow started on the eBay site. The user then had the option of a number of different payment methods to select from, one of which was Billpoint. If the user selected that, the user was passed over to the Billpoint site.

Q. Okay. But—so there was an option to select Billpoint, and at that point if you clicked on the link, you would go to Billpoint if you had, in fact, selected that as your payment means; correct?

A. Yes. Clicked on the button, yeah.

Q. And eBay embedded that link in its web site page; correct?

A. To be clear, it wasn't a link. There was a list of options that a user could choose from, check, for example, money order, for example.

Billpoint/eBay Payments was one of those options that was in that list. When the user selected that, clicked the button to continue, the user would be passed over to the Billpoint site.

Q. Okay. So the first thing you did was select the option, and then you had clicked the [31] button, and if you'd selected Billpoint, you'd be passed over to the Billpoint web site in order to process the transaction; correct?

A. Yeah, to process the payment.

Q. All right. As part of—well, let me ask you if this is accurate: Yesterday Mr. Gilmer testified that in order to be a Billpoint registered user, you needed to be an eBay registered user.

Is that accurate?

A. Yes.

Q. Okay. So Billpoint—all Billpoint users were eBay registered users?

A. Yes.

Q. Presently when a seller registers, it can tell eBay its preferred payment method; correct?

A. When a seller—

Q. Registers with eBay. Can it say, "I will accept PayPal," for example?

A. No, that's not part of the registration [32] process.

Q. Okay. What is that—what part of the process is that, when a seller can indicate that it wants the preferred payment? Is it when it lists an item?

A. Yes, and it—to be clear, it's not a preferred payment method. He just lists the payment methods he's willing to accept. There's no notion of a preferred method from a seller's perspective.

[33] Isn't it true that now as part of the List Your Items process eBay has a default mechanism which automatically selects PayPal as the payment processing means?

THE WITNESS: PayPal is automatically selected in certain cases. So if you are a new seller on eBay and you meet—you.don't fall into—and you're in a country that's supported by PayPal, that option is defaulted on. The user has the option to turn it off.

Q. Okay. And you indicate that's for new sellers; is that right?

A. The check box is available to everybody, but it's defaulted on for new sellers.

[34] Q. And how long has that default payment process for PayPal for new sellers been in place?

A. Since we launched the PayPal system in October of 2002.

[35] Q. Okay. If the seller for the item that I was the winning bidder, for example, has designated that they want PayPal to be the means by which the buyer pays, does that appear on the buyer's My eBay [36] page?

A. Before the buyer has paid, no. It just has a button that leads a user into the payment flow, and then all of the sellers—there's various options a seller can set which affect how that appears. But all of a seller's options are shown in that—in the checkout process, all of those payment options that the seller accepts.

Q. So if the payment—excuse.me. I misspoke.

If the seller has indicated that he will accept PayPal, that would appear on the buyer's My eBay page?

A. No.

Q. I just misunderstood you.

A. When a buyer clicks on the "Pay Now" Button—

Q. Yes.

A.—he'll go to a page where it says to the buyer, this is how it works today, "How do you want to pay?" And it will

give the buyer all of the options that the seller has available.

[37] Q. Okay. And if one of the options is PayPal, is there a button he can click on, a Pay Now button that he clicks on or some button that would then take him through the PayPal payment process?

A. There's a—what we call a radio button. Essentially a user can select the option similar to what I was talking about before. There's a way a user can select the PayPal option, click a button, and that would take him to PayPal's site.

[38] Q. Okay. So you're generally both as a user of the eBay system and as the senior product manager involved in this kind of transaction processing, you're familiar with the operations of . . . .

* * * *

[148] . . . this is definitely true.

Q. Well, how about from a technical perspective? Isn't incorporating PayPal's functionality into the eBay platform—don't you think it will fundamentally strengthen the user experience and allow buyers and sellers to trade with greater ease, greater speed and greater safety?

A. Yes. Looking at the—a lot of features that we've looked at today so far with that payment process, for example, the fact that you can get there from eBay, you know, if that's the integration we're talking about, then yes, I do think it has strengthened the user experience and allowed buyers and sellers to trade with greater ease, speed, and [149] safety.

Q. eBay paid $1.5 billion for PayPal in this acquisition; correct?

A. Right.

THE WITNESS: As far as I know, that's what it says is the cost.

[171] Q. Can a user be suspended from using eBay's services if they violate the user agreement?

A. Yes.

Q. In fact, eBay has suspended users for violating its user agreement; isn't that correct?

THE WITNESS: Yes, users have been

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., a Delaware Corporation, and HALF.COM, INC., a Pennsylvania Corporation,
Defendants.

EBAY AND HALF.COM'S MEMORANDUM IN SUPPORT OF MOTION IN LIMINE No. 11

MOTION TO EXCLUDE DR. ALFRED WEAVER'S PROPOSED TESTIMONY REGARDING DEFENDANTS' ALLEGED "TRANSFER OF OWNERSHIP."

I. INTRODUCTION.

eBay respectfully requests the Court exclude the erroneous testimony of MercExchange's proposed expert witness, Dr. Alfred Weaver, regarding defendants' alleged "transfer of ownership" and the '265 patent. Controlling Supreme Court and Fourth Circuit authority require exclusion of the proposed testimony for at least the following reasons:

- First, Dr. Weaver's opinion that defendants "transfer ownership" is based entirely on his understanding of legal rather than technical issues. Dr. Weaver is not a lawyer and MercExchange has never identified him as a legal expert, but nonetheless proffers his opinion on "legal entitlement to a good," "the question [of] whether a buyer has a legally cognizable right to the

good," and what legal rights and obligations are "established under the [eBay and Half.com] user agreement." Such opinions are not based on any technical or specialized knowledge of Dr. Weaver, and are therefore unreliable and inadmissible under *Daubert*.

- Second, permitting Dr. Weaver, who has been identified as an expert on *technical issues*, to offer an erroneous opinion on a legal issue beyond his personal specialized knowledge would only serve to confuse the jury and prejudice defendants. Dr. Weaver can at best offer lay opinion or reiterate erroneous *lawyer argument* on what Dr. Weaver himself characterizes as a *legal question*—whether defendants transfer ownership of goods listed on their sites. Such testimony carries no legitimate probative value, and will clearly confuse the jury and prejudice defendants. Accordingly, the Court should exclude Dr. Weaver's opinion regarding transfer of ownership. Fed. R. Evid. 403.

Thus, eBay and Half.com respectfully request the Court enter the attached order, precluding Dr. Weaver from providing any opinion at trial regarding the alleged "transfer of ownership" of goods on the defendants' sites.

II. BACKGROUND.

A. The '265 patent envisions a trusted intermediary that "Transfers Ownership" of a good from the Seller to the Buyer.

To address the alleged need to speculate on baseball cards and collectable goods, Mr. Woolston envisioned a "trusted intermediary" system. Mr. Woolston's trusted intermediary system used consignment nodes to take possession of a good, track ownership of the good in a database, and transfer legal ownership of that good *throughout the trusted system*, without shipping the good. *See* '265 Patent Col. 1:23-26 ("The

prior art does not provide a means to electronically market used goods or provide an avenue to allow participants to speculate on the price of collectable or used goods in an electronic market place."). Because the trusted intermediary possessed the good and would transfer ownership itself without further actions by the buyer or seller, it offered immediate legal finality of transaction and enabled a buyer to speculate by reposting the good for sale without having to wait for delivery of the item from the seller. *See* '365 Patent Col. 3:35-41 (". . . the participant may take electronic legal ownership of a good . . . [t]his allows a participant to speculate with collectable goods on the consignment node network's different markets and not incur the shipping costs with physically moving the goods, while providing a trusted means to assure potential buyers of the good's bona fide availability and legal title."). Thus, the trusted intermediary's transfer of legal ownership permitted a good to be rapidly traded, and thus, allegedly created a "market" for that good. *See, e.g.*, '365 Patent Claim 8 ("then *transfer the ownership* of said good for sale by modifying said data record of said good for sale to reflect the new ownership").

B. Dr. Weaver, a non-lawyer, purports to offer an opinion about legal transfer of title.

MercExchange's proposed expert on the '265 patent, Dr. Alfred Weaver, offered an erroneous law opinion that "legal title to the good" is transferred on the eBay system:

> In my opinion, the updating of the data record by the eBay transaction processor [sic] to indicate the name of the winning bidder and to confirm that the winning bidder's payment had been processed through the transaction processor [sic] *transfers legal title to the good.* Pursuant to the user agreement with eBay, the winning bidder, upon making payment, *is legally entitled to the good.* Contrary to Dr. Wellman's position set forth in the Wellman Supplemental Report, *legal entitlement to a*

> *good* does not require that the system enforce a transfer of physical possession of a good. Rather, t*he question is whether a buyer has a legally cognizable right to the good, which in my opinion, is clearly established under the user agreement.*

(McFarland Decl. Exh. 1 Weaver Supp. Rpt. (Feb. 21, 2003) ¶ 54 (emphasis added)). In fact, eBay's system does not transfer title to any good, and Dr. Weaver has no qualifications to opine otherwise.

III. ARGUMENT.

A. Experts are permitted to testify only as to matters within their own specialized knowledge.

Federal Rule of Evidence 702 provides: "If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise." FED. R. EVID. 703.

> A district judge, considering a proffer of expert testimony under Federal Rule of Evidence 702—whether based on scientific, technical, or other specialized knowledge—must, in determining its admissibility, ensure that the evidence is "not only relevant, but reliable." A reliable expert opinion must be based on scientific, technical, or other specialized knowledge and not on belief or speculation.

Oglesby v. General Motors Corp., 190 F.3d 244, 250 (4th Cir 1999) (quoting *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 589 (1993)). Dr. Weaver's opinion on "transfer of title" is *not* based on "scientific, technical, or other specialized knowledge," will not assist the jury, and therefore, should be excluded.

B. Dr. Weaver's legal opinion on transfer of ownership should be excluded under Fed. R. Evid. 702 and *Daubert*.

Dr. Weaver is an alleged expert in "Computer Science and Engineering." He is not a legal scholar, has no legal training, and is neither qualified to interpret a contract[1] nor offer an opinion on its legal effect. *Shreve v. Sears, Roebuck & Co.*, 166 F. Supp. 3d 378, 391 (D. Md. 3001) ("[T]here are many different kinds of experts, and many different kinds of expertise.' The fact that a proposed witness is an expert in one area, does not ipso facto qualify him to testify as an expert in all related areas.") (quoting *Kumho Tire Co. v. Carmichael*, 536 U.S. 137, 150 (1999)).

Courts and commentators have repeatedly recognized that technical experts should not be permitted to testify about legal issues, which should be left for lawyers to argue and the courts to decide. Modern expert practice "has led to some unfortunate abuses. Examples abound of judges who have allowed experts to testify to legal conclusions, essentially telling the jury how to decide the case." L. Timothy Perrin, *Expert Witness Testimony: Back to the Future*, 29 U. Rich. L. Rev. 1389, 1400 (Dec. 1995). "Stated more directly, the trial judge ought to insist that a proffered expert bring to the jury more than lawyers can offer in argument. It is too easy for the expert to become nothing more than an advocate of policy before the jury." *Salas v. Carpenter*, 980 F.3d 299, 305 (5th Cir. 1993). *See also Askanase v. Fatjo*, 1996 WL 3373364 (S.D. Tex. 1996) ("in some cases, expert testimony can too easily turn the 'ultimate issue' into 'whatever [the] expert says it is' . . . [the excluded] testimony offers nothing more than a lawyer's arguments on matters of law"). The Federal

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[1] *See Johannssen v. Dist. No. 1-Pac. Coast Dist. MEBA Pension Plan*, 292 F.3d 159, 171 (4th Cir. 2002) ("contract interpretation is a question of law").

Circuit observed: "*An expert's opinion on the ultimate legal conclusion is neither required nor indeed 'evidence' at all.*" *Nutrition 21 v. United States*, 930 F.3d 867, 871 n.2 (Fed. Cir. 1991) (emphasis added).

Because Dr. Weaver's legal opinion that eBay and Half.com transfer ownership of goods listed on their sites is not based on "knowledge, skill, experience, training, or education," Rule 702 precludes him from offering such testimony at trial.

C. Dr. Weaver's lay opinion on the law has no probative value, will only confuse the jury and prejudice defendants, and should be excluded under Rule 403.

Federal Rule of Evidence 403 provides that, "[a]lthough relevant, evidence may be excluded if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury." FED. R. EVID. 403. Dr. Weaver's lay legal opinion[2] is precisely the sort of evidence Rule 403 was intended to address.

As discussed above, Dr. Weaver is not qualified to interpret the legal effect of a contract or offer a legal opinion on the creation of "legally cognizable rights." Thus, his erroneous opinion that defendants transfer ownership is not probative of *anything*. *See Nutrition 21*, 930 F.2d at 871 n.2 ("An expert's opinion on the ultimate legal conclusion is neither required nor indeed 'evidence' at all."). However, because Dr. Weaver will presumably be identified to the jury as an expert witness, permitting him to offer his lay legal opinion from the stand will almost certainly confuse the jury. *See Jinro America, Inc. v. Secure Investments, Inc.*, 366 F.3d 993, 1004 (9th Cir. 3001) (allowing a witness to come "before the

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[2] Even if Dr. Weaver were not offered as an expert witness, such testimony is inadmissible under Federal Rule of Evidence 701, as Dr. Weaver's legal opinion is neither rationally based on his own experience nor helpful in determining any issue in the case.

jury cloaked with the mantle of an expert . . . is significant for two reasons: First, it allows) him to testify based on hearsay information, and to couch his observations as generalized 'opinions' rather than as firsthand knowledge . . . Second, as the opinion of a purported 'expert' . . . his statements [a]re likely to carry special weight with the jury"). Learned Hand, *Historical and Practical Considerations Regarding Expert Testimony*, 15 Harv. Rev. 40, 52 (1901) ("*the expert has taken the jury's place if they believe him*"). Moreover, because Dr. Weaver's opinion regarding the transfer of legal title is erroneous, the prejudice from allowing such testimony is inevitable. Accordingly, the Court should exclude Dr. Weaver's "transfer ownership" opinion.

IV. CONCLUSION.

Dr. Weaver is a technical expert, with no qualifications to offer an opinion that the defendants "transfer ownership" of goods listed on their sites. Consequently, the Court should restrict Dr. Weaver's testimony, as set forth in the attached proposed order.

Dated: March 27, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Apr. 3, 2003]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., *et al.*,
Defendants.

ORDER AND OPINION

Presently before the court is an Expedited Motion to Enforce this court's February 14, 2003 Order and Opinion to MercExchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings, filed by eBay and Half.com ("defendants"). In this Motion, the defendants seek to prevent MercExchange, L.L.C. ("plaintiff") from (1) submitting new expert testimony from Dr. Weaver on U.S. Patent No. 6,303,051 ("the '051 patent"), and (3) changing its position with respect to defendants' infringement of U.S. Patent No. 5,845,265 ("the '365 patent"). For the reasons more fully articulated below, the defendants' Motion is GRANTED in part and DENIED in part.

I. The '051 Patent Issue

On February 14, 3003, the court entered an Order and Opinion which, *inter alia*, granted summary judgment of invalidity of the '051 patent.[1] The court refused to reopen the

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[1] The plaintiff makes reference to this February 14, 2003 Opinion, speculating that the defendants may decide to appeal the court's denial of

proceedings and permit the plaintiff leave to submit supplemental expert reports, specifically that of Dr.

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their Motions for Summary Judgment of Non-infringement and Inequitable Conduct. However, the plaintiff misstates the court's Opinion. The court denied these Motions simply because the '051 patent had been invalidated based on a previous ruling by the court. Had the '051 not been invalidated, the court would have conducted further proceedings regarding the defendants' Motions, particularly with respect to the inequitable conduct allegation.

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,
Plaintiff,

v.

eBAY INC., a Delaware Corporation, and HALF.COM, INC.,
a Pennsylvania Corporation,
Defendants.

EBAY AND HALF.COM'S REPLY IN SUPPORT OF MOTION IN LIMINE NO. I:

MOTION TO EXCLUDE EVIDENCE OF INSOLVENT RETURNBUY'S "CONFESSION" AND LICENSE/SETTLEMENT AGREEMENT WITH MERCEXCHANGE.

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

I. INTRODUCTION.

MercExchange's continued attempt to rely on the ReturnBuy "confession" and the abandoned ReturnBuy license agreement—including MereExchange's rush to the Federal Circuit in a *quasi-*

mandamus attack against Judge Friedman—speaks volumes about MereExchange's misguided efforts to fabricate "evidence" for this case. *MercExchange ignores the Federal Rules of Evidence, and offers no substantive response whatsoever to defendants' objections.* Instead, MercExchange offers a diatribe about eBay in an effort to convince the Court that MercExchange's effort to fabricate the ReturnBuy "evidence" is "relevant"—an argument that misses the point.[1] The question is not whether the ReturnBuy "confession" is "relevant," but rather, whether the evidence is *admissible* under the Federal Rules. As set forth in eBay's opening brief, the ReturnBuy evidence is indisputably *inadmissible*, and allowing Mr. Woolston to present it to the jury would create confusion, prejudice, and plain error.

- First, MercExchange *agrees that* the ReturnBuy "confession" came long *after* the close of discovery, and MercExchange acknowledges that it refused to allow any discovery into it. Nonetheless, MercExchange inexplicably argues that defendants' request for discovery, including the depositions of the individuals who negotiated the "confession" and all documents regarding it, was "frivolous." Under MercExchange's flawed logic, *all* discovery is "frivolous"—including the *fifty days of deposition that* MercExchange took of defendants.

- Second, the evidence is inadmissible hearsay under Federal Rules of Evidence 801, not covered by any exception. In a transparent attempt to mislead the Court, MercExchange tells the Court that the sham "confession" is an "admission of a party-opponent." MercExchange apparently expects

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[1] In fact, contrary to the false claims that MercExchange *made* to Judge Friedman in its summary judgment briefs, the "valuable license agreement" was *abandoned in* bankruptcy court. The United States Bankruptcy Court for the Eastern District of Virginia has ordered that the new operator of the ReturnBuy site, Jabil Circuit, is not bound by the MercExchange "license," or by the bogus ReturnBuy "confessions." MercExchange has *never* made a penny from the abandoned ReturnBuy "license," and quite likely, never will.

the Court to ignore the case caption, and the Federal Rules of Evidence. An admission of a party-opponent is admissible *only against the party-opponent—and* ReturnBuy is not a party to this case. Allowing the "evidence" would be plain error.

- Third, MercExchange does not address the fact that the ReturnBuy "confession"/license/settlement—extracted from an insolvent company in the midst of selling its assets—has *no* probative effect whatsoever, yet is extraordinarily prejudicial. MercExchange *admits* that the ReturnBuy license has been *abandoned* in bankruptcy. MercExchange *admits that* nobody wanted the exorbitant ReturnBuy license, and MercExchange apparently concedes that it will never receive a penny from it. Nonetheless, MercExchange proclaims that the abandoned license establishes a "reasonable royalty." In fact, the ReturnBuy episode proves the *opposite*.

- •Fourth, MercExchange fails to address the fact that the ReturnBuy "confession"/license/settlement—an inherently unreliable "confession" about pending *legal issues—is an* inadmissible opinion under FED. R. EVID. 701. MercExchange irrelevantly notes that Mr. Shill has been in business a long time, a fact that does not qualify him to provide hearsay opinion evidence in a federal litigation.

MercExchange's attempt to fabricate evidence, and its misguided efforts to mislead the Court during the '265 summary judgment briefing, should not become a sideshow at the jury trial. MercExchange had eleven days to consider the Rules of Evidence, but in the end, *did not even cite them in its opposition brief*. In effect, Motion in Limine No. 1 is uncontested.

II. ARGUMENT.

A. MercExchange's *quasi-mandamus attack* against Judge Friedman in the Federal Circuit reveals MercExchange's bad faith.

The Court's February 26, 2003 consent judgment between RetumBuy and MercExchange contains the following clear, and correct, provision: "Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com, and MercExchange in this case." The Court was undoubtedly correct as a matter of law. Nonetheless, MercExchange has marked the Court's order as a *trial exhibit,* and apparently intends to use it to confuse the jury *as* part of the RetumBuy "confession" story.

Although MercExchange suggests that it *agrees* with the Court's order, (Merc. Opp. Br. at 13-14), it fails to inform the Court that, just *as* MercExchange lashed out at Commissioner Mossinghoff, who dared offer his opinion that MercExchange committed inequitable conduct, MercExchange has now lashed out at Judge Friedman, filing a *quasi-mandamus* "appeal" of the RetumBuy consent judgment. MercExchange knows that it has no basis to "appeal" a *consent judgment,* and is merely forcing eBay and Half.com to intervene at the Federal Circuit, and incur further legal expense responding to MercExchange's bad faith conduct.

B. MercExchange cannot ignore defendants' right to discovery.

MercExchange *concedes* that defendants had no discovery into the RetumBuy/MercExchange settlement, which MercExchange describes as an "unholy alliance." Mr. Woolston received exactly what he requested—a "confession," that he could parade to the media, and a chance to mislead the Court on MercExchange's '265 motion for summary judgment. Mr. Shill received a dismissal with prejudice *for nothing,* and then discarded the license in bankruptcy. For obvious reasons, defendants were entitled to take discovery on these issues, and MercExchange, for obvious rea-

sons, refused. This is not a close call. The Court should exclude the evidence.

C. MercExchange's "admission" argument is frivolous—ReturnBuy is not a party-opponent, and is no longer in this case.

MercExchange frivolously argues that "ReturnBuy's 'confessions' constitute an admission of a party-opponent." (Merc. Opp. Br. at 6). The argument is yet another bad faith effort to deceive the Court, and create plain error. No attorney could make it in good faith; and no case supports it. MercExchange's trial attorneys know that admissions are admissible against only the party making them. ReturnBuy is no longer a "party-opponent," and the "confession," obviously, is not offered against it. *See* Fed. R. Evid. 801(d). MercExchange's "admission" argument is frivolous.[2]

D. MercExchange concedes that the evidence of the ReturnBuy "confession" is inadmissible lay opinion.

MercExchange apparently concedes that the ReturnBuy confession is an "opinion," but completely ignores the law on the subject. Instead, MercExchange irrelevantly notes that Mr. Shill holds various degrees, including "an MA in Asian studies from the University of Virginia," and has worked in business for a long time. (Merc. Opp. Br. at 2, n.1). Mr. Shill's background does not entitle him to offer lay-opinion "confessions" about patent law, and no authority suggests otherwise.

E. MercExchange does not cite Rule 403, much less overcome the objection.

MercExchange concedes that ReturnBuy was insolvent, and admits that the license has been discarded in bankruptcy. Return-

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[2] MercExchange's only case, *Precision Piping & Instruments v. E.I. DuPont*, 951 F.2d 613 (4th Cir. 1991) *excluded* hearsay statements, and does *not* hold or suggest that a *non-party's* hearsay statement is a party-admission that may be introduced at trial.

Buy's assets now belong to Jabil Circuit, which did *not* accept the ReturnBuy license or "confession," and as the Eastern District Court has held, *is not bound by it*. (McFarland Decl. Ex.6 *(In re ReturnBuy, Inc*. Order Approving Asset Purchase Agreement with Jabil Global Services, Inc. Authorizing the Sale of Substantially All Assets, C.N. 03-10324-SSM (Mar. 4, 2003)).

Under these circumstances, the "confession" and license agreement are absolutely inadmissible, and have no probative value whatsoever. MercExchange has never received *a penny* from them, and likely, never will. The parties agree that the evidence is prejudicial, and MercExchange admits that it will make a host of statements about it at trial, hoping to "embarrass" eBay and its attorneys. The ReturnBuy "confession"/license is exactly the sort of *material that* Rule 403 is meant to exclude. *See, e.g., Glaros v. H.H. Robertson Co.*, 797 F.2d 1564, 1572-73 (Fed. Cir. 1986) (excluding evidence that "would have injected frolics and detours and would have required introduction of counter-evidence").

III. CONCLUSION.

The ReturnBuy "confession" is nothing more than fabricated "evidence" to deceive the Court and the jury. After MercExchange failed to deceive Judge Friedman during the '265 summary judgment briefing, the license agreement was discarded in bankruptcy, and the Bankruptcy Court for the Eastern District of Virginia held that Jabil Circuit, which purchased ReturnBuy's assets, is not bound by the agreement or the "confessions" in it. MercExchange's diatribe—which ignores the Federal Rules and does not address many of eBay's objections—is frivolous. MercExchange's *quasi-mandamus* attempt to "appeal" the consent judgment is unconscionable, and demonstrates MercExchange's bad faith. The Court should exclude all reference to, reliance on, and evidence of, the ReturnBuy "confession"/license settlement at trial.

Dated: April 9, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company.
Plaintiff,

v.

EBAY INC., a Delaware Corporation, and HALF.COM, INC.,
a Pennsylvania Corporation,
Defendants.

EBAY INC. AND HALF.COM INC.'S OBJECTIONS TO AND APPEALS FROM CERTAIN EVIDENTIARY RULINGS MADE BY JUDGE BRADBERRY DURING PRE-TRIAL CONFERENCE.

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

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I. INTRODUCTION.

Defendants eBay Inc. and Half.com. Inc. respectfully object to. and appeal from. certain rulings entered by Judge Bradberry during the pre-trial conference on April 10, 11. and 12. As an initial point, the defendants acknowledge and appreciate the enormous effort expended by Judge Bradberry and the entire Court staff to prepare for and conduct the pre-trial conference in this difficult and complex case. Due to the Court's preparation and patience. the parties were able to obtain rulings on the admissibility of hundreds of exhibits and deposition designations and resolve several other outstanding issues for the trial next week. Again, the defendants appreciate the enormous effort, which included the entire court staff sacrificing a Saturday to complete the pre-trial conference. However, as would be expected in ruling on the admissibility of literally hundreds of exhibits and deposition designations, there are a limited number of rulings of significant importance to the defendants in this important trial, which defendants respectfully contend were incorrectly decided, and will materially prejudice the defendants at trial. Accordingly, in addition to the other issues the defendants have appealed to date (the four experts (Dkt. 394), the five percipient witnesses (Dkt. 393), and the RetumBuy "confession" (served Saturday, filed April 14, 2003)) the defendants object to, and appeal from, the following rulings made by Judge Bradberry during the pre-trial conference.

II. APPEAL FROM RULING PERMITTING THE CROSS-EXAMINATION DEPOSITION TESTIMONY OF MESSRS. BASIL, DIMAGGIO, MAGLIOTO AND CHOY, BUT EXCLUDING THEIR DIRECT EXAMINATION STATEMENTS (DEFENDANTS' EXHIBITS 45, 79, 83, 86, 578, 579), WHICH WERE SUBJECT TO FULL, FAIR, AND INTENSE CROSS-EXAMINATION.

Defendants respectfully appeal Judge Bradberry's order admitting the cross-examination deposition testimony of Messrs. Basil, DiMaggio, Magliato, and Choy, but excluding their direct testimony.[1] Admission of MercExchange's cross-examination of these witnesses, without the benefit and context of their underlying direct testimony witness statements, will present the jury with a needlessly confusing and incomplete view of the evidence.

Messrs. Basil. DiMaggio. and Magliato are important witnesses who presented direct testimony through individual declarations describing the prior art systems that they designed built, and operated before Woolston wrote his patent applications. Defendants assert that the prior art of these witnesses invalidates the '176 and '265 claims, and each of the witnesses submitted direct testimony witness statements. Mr. Choy described his system which similarly disclosed many of the concepts claimed in the '176 and '265 Patents and served *as an* example of what was known in the art at the relevant time period. The declarations from these witnesses naturally focused on their *systems*, not on the patents-in-suit (which they had never read). MercExchange fully cross-examined each witness at depositions. Judge Bradberry admitted the portions of the cross-examinations but *excluded the witnesses' direct testimony witness statements in their*

[1] The direct testimony of these witnesses were submitted in the form of sworn declarations marked as Defendants' trial exhibit nos. 45, 79, 83, 86, 578, 579.

entirety, on the grounds that declarations should not be handed to the jury.

Defendants respectfully request the Court reverse its decision, or, at a minimum, permit the direct testimony witness statements to be read to the jury before MercExchange's cross examination is played. Excluding the declarations entirely is plain error. This is not the case of an eleventh hour declaration submitted on the eve of trial without any opportunity for cross-examination. MercExchange received and fully cross-examined the witnesses on their declarations *a year ago*. The presentation of direct testimony through declarations or affidavits, subject *to* live cross-examination—as here with Messrs. Basil, DiMaggio, Magliato, and Choy—is commonplace, and, in many cases, necessary. *See Castillo v. Case Farms of Ohio, Inc.*, 96 F. Supp. 2d 578, 587 (W.D. Tex. 1999) (allowing "direct testimony by means of designated deposition excerpts and affidavits, [where witnesses] were then made available for in-person cross-examination . . . the ends of justice, at times, require a combination of live and written testimony."); *In re Gergely*, 110 F.3d 1448, 1452 (9th Cir.1997) ("Requiring evidence to be presented by declaration is . . . accepted and encouraged" in some circumstances). Indeed, the presentation of direct testimony by declaration is *required practice in* many federal courts.[2]

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[2] *See, e.g., Kuntz v. Sea Eagle Diving Adventures Corp.*, 199 F.R.D. 665, 667 (D. Hawaii 1999) (approving district's Declarations Procedure because the "accuracy of each witness statement is assured by the declarant's review and signing of the statement on penalty of perjury. The Declarations Procedure also permits oral cross-examination and oral redirect examination") (emphasis added); *Saverson v. Levitt*, 162 F.R.D. 407, 410 (D.D.C. 1995) (*"[r]equiring the parties to submit their direct testimony in writing* in lieu of the usual question-and-answer form *is* sanctioned under the inherent powers of the Court, the Federal Rules of Civil Procedure and the Federal Rules of Evidence") (emphasis added); *Nihon Keizai Shimbun, Inc. v. Comline Bus.Data, Inc.*, No. 98 Civ. 641 (DLC), 1998 WL 274285, *1 (S.D.N.Y. May 27, 1998) ("Pursuant to this Court's rules for non jury trials, *the direct testimony of all trial witnesses*

The jury is entitled to the benefit of these witnesses' direct testimony. MercExchange's request to present excerpts of cross-examination to the jury without the context of the direct testimony contained in the witnesses' declaration defies logic and the rules of evidence. Much, if not all, of MercExchange's cross-examination related to statements made by Messrs. Basil. DiMaggio, Magliato, and Choy in their declarations. Playing disconnected portions of MercExchange's cross-examination without providing the jury with the declaration that is the subject of that questioning will be needlessly confusing.

Admission of cross-examination without the witnesses' direct testimony is clearly erroneous. Defendants respectfully appeal Judge Bradberry's order excluding the direct testimony of Messrs. Basil. DiMaggio, Magliato, and Choy contained in their declarations and request an order confirming the admissibility of the declarations, or, at a minimum, permitting the testimony contained therein to be read to the jury.

III. APPEAL FROM RULING EXCLUDING DEFENDANTS' TRIAL EXHIBIT NO. 122—A PRIOR ART NEWSGROUP POSTING ON THE BIDBROKER SYSTEM AUTHENTICATED BY MR. CHOY HENG-WAH—WHICH JUDGE FRIEDMAN RULED RAISED A TRIABLE ISSUE OF FACT.

Defendants respectfully request the Court overrule Judge Bradberry's ruling excluding defendants' trial exhibit no. 122, which is the Choy Heng-Wah Newsgroup posting on the BidBroker software. Mr. Choy Heng-Wah was fully and fairly cross-examined on the BidBroker software described in his posting and although MercExchange argued that the

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was presented by affidavit, and only those witnesses whom the parties wished to cross-examine—a total of three individuals for both parties combined—actually appeared and were questioned at trial") (emphasis added).

posting was not a "publication." Judge Friedman ruled that the question raised a triable issue of fact. At the pretrial conference. MereExchange argued that the posting was only relevant to the '051 patent: however, Mr. Choy never reviewed the '051 patent. and instead. testified and was fully cross-examined concerning his prior art disclosure concerning the BidBroker software *without reference to any patent.*

Mr. Choy's BidBroker software is highly relevant and material to the triable issues here. For example, Mr. Choy's posting discloses many of the concepts underlying the '265 patent and represents one of many of the prior art references showing the state of the art at the time Mr. Woolston allegedly developed his invention. Such references are clearly relevant and admissible under any obviousness analysis for the '265 patent under 35 U.S.C. § 103(a), which is at the heart of the defendants' defenses. *See. e.g., Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966) (emphasis added) (stating that "Under § 103, *the scope and content of the prior art are to be determined;* differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or nonobviousness of the subject matter is determined.") It is thus clear error to exclude the Choy BidBroker software posting from the scope and content of the prior art. Judge Friedman has already ruled that the Choy posting raised a triable issue of fact concerning its teachings, and the jury must consider those teachings as part of the scope and content of the prior art to Mr. Woolston's patents.

IV. Appeal From Ruling Excluding Defendants' Trial Exhibits Nos. 26 and 47-49—Prior Art Articles Concerning the Acorn Network.

Defendants respectfully request the Court overrule Judge Bradberry's ruling excluding defendants' trial exhibits nos. 26 and 47-49, which are prior art articles describing the prior art "ACORN" network. These exact same articles were later

allowed into evidence (defendants' exhibits 414-416), and thus, defendants request a definitive ruling that such exhibits are admissible. These articles are important to establishing the invalidity of the patents-in-suit. For example, trial exhibit 26, an article titled *"From Army Knives to Gold coins. Collectors Attend 'On-Line Auctions."* was *cited by an examiner in the Patent and Trademark Office* as showing most, if not all, of the aspects of Mr. Woolston's alleged inventions. These exhibits also demonstrate the scope and content of the prior art which Defendants are required to establish in order to prove obviousness. Finally, the exhibits serve as corroborating evidence of the prior art activities of Messrs. Blankley and Mintz in the 1980's. As a result, defendants' trial exhibits 26 and 47-49 are highly relevant and should be admitted.

V. APPEAL FROM RULING ON MOTIONS IN LIMINE NO. 9 (DKT. NOS. 326, 327, AND 386) AND NO. 15 (DKT. NOS. 342 AND 343) ALLOWING MERCEXCHANGE TO ADD ENTIRELY NEW INFRINGEMENT THEORIES AND PARTIES IN *MARCH 2003*.

At the pre-trial conference, Judge Bradberry ruled on two motions in limine filed by the defendants regarding new infringement theories brought against new parties only about a month before trial. First, the Court ruled that MercExchange could rely on evidence of alleged "direct" infringers even though MercExchange steadfastly refused to identify the alleged "direct" infringers until March 2003. Second, the Court allowed MercExchange to accuse the defendants of direct infringement through the operation of PayPal, even though MercExchange did not assert this theory until March 2003. The Court should reverse these rulings.

A. The Eight New Alleged "Direct" Infringers (Motion in Limine No. 9).

As argued in Motion in Limine No. 9 (Dkt. Nos. 326, 327, and 386), MercExchange waited until March 2003—*a full eight months after discovery closed and only a month before trial*—to accuse eBay and Half.com of infringing the patents-in-suit by contributing to and/or inducing infringement by at least *eight new third parties*.[3] The new third party infringers were known to MercExchange months ago and MercExchange apparently intended to rely on them to show infringement. Nevertheless, MercExchange inexcusably chose not to disclose them to the defendants.

MercExchanges actions have severely prejudiced the defendants. In order to prevail on its new theory of liability, MercExchange must first establish the *direct* infringement of these previously unidentified third-parties which will result in a mini-trial on each one and could extend the trial for weeks. By deliberately concealing their identities until eight months after the close of discovery and only a month before trial, MercExchange has deprived eBay and Half.com of the opportunity to take any discovery on the alleged direct infringement and properly prepare its defense. In order to prevent the prejudice that will result because the defendants were not given the opportunity to take discovery on the alleged direct infringement of at least eight third parties whose identities were deliberately withheld from the defendants the Court should reverse Judge Bradberry's ruling and preclude MercExchange from offering any evidence on the alleged "direct"

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[3] Essentially, MercExchange asserts that eBay and Half.com induce third parties to infringe the '176 patent by allowing those parties to use "software search agents" to retrieve data from eBay and Half.com's database. In addition, MercExchange asserts that eBay is working in concert with eTopps to infringe the '265 patent.

infringement by (1) Yahoo! (2) BestBookBuys, (3) BookFinder, (4) BottomDollar.com, (5) PriceScan, (6) PriceGrabber.com, (7) Best Web Buys, and (8) eTopps.

B. PayPal (Motion in Limine No. 15).

As argued in Motion in Limine No. 15 (Dkt. Nos. 342 and 343), MercExchange also waited far too long to contend that eBay infringes the patents-in-suit through the operation of PayPal. PayPal was a completely independent company for a majority of this case, but was well known to MercExchange long before discovery closed. Until very late in the case, however, MercExchange never, in its interrogatory responses or expert reports, accused eBay of infringement through PayPal. Moreover, MercExchange never sought discovery relating to PayPal, through a subpoena or otherwise, until very late in the case. MercExchange had the opportunity to develop its case against PayPal—just as it did with respect to BillPoint—but consciously chose not to do so. Even after PayPal was acquired by eBay in July, MercExchange insisted that discovery remain closed—arguing that discovery was "in the deep freeze.—(September 19, 2002 Hearing Tr. 19:7-20:5).

Despite the opportunity to develop - and disclose - an infringement theory based on PayPal, MercExchange waited until March 2003 to inject PayPal into this case, through a deposition that was *supposed to be about Billpoint*. By doing so, MercExchange deprived the defendants of the opportunity to conduct discovery of its own and properly prepare a defense. Accordingly, the Court should reverse Judge Bradberry's ruling and exclude any evidence regarding PayPal.

VI. APPEAL FROM RULING ON MOTION IN LIMINE NO. 12 (DKR. NOS. 335, 336 AND 389) EXCUSING AN ADMITTED FAILURE OF PROOF ON DAMAGES AND ALLOWING MERCEXCHANGE TO PROVE DAMAGES THROUGH IRRELEVANT "PROXY" EVIDENCE OF NON-INFRINGING ACTIVITIES.

In motion in limine no. 12 (Dkt. Nos. 335, 336 and 389), eBay moved to preclude MercExchange from introducing at trial *any evidence* of damages for eBay's alleged indirect infringement of the '176 patent. MereExchange's damages *theory* for eBay's alleged infringement of the '176 patent is *premised solely on international sales* conducted by users of eBay's website. However, MercExchange has not alleged, much less identified any evidence of, infringement based on such international sales. MercExchange cannot, therefore, support its damages theory with any predicate proof of infringement, as a matter of law.

Conversely, MercExchange's lone infringement theory against eBay on the '176 patent is an *indirect* infringement claim based on eBay's alleged inducement of or contribution to the alleged direct infringement of BidXS, a California company which does not conduct international transactions, and a set of new direct infringers, for whom MercExchange has failed to present any evidence of direct infringement, as indicated above in section V.A. MercExchange has inexplicably continued to pursue this *liability claim* without any proof of such direct infringement of domestic transactions, and MercExchange's damages theory is based *only on international sales* is entirely unrelated to the alleged infringement involving such domestic transactions. There is no nexus between MereExchange's liability allegations involving BidXS, on the one hand and *its* purported international sales-based damages, on the other.

At the pre-trial conference, *MercExchange admitted that it has no "damages" evidence relating to eBay's alleged indir-*

ect infringement of the '176 patent based on domestic transactions. The jury should not, therefore, be burdened with a presentation at trial of evidence of allegedly infringing conduct for which there is no evidence of damages, nor should the jury be asked to consider such irrelevant, misleading and confusing issues. While MercExchange conceded the failure of proof on its damages theory, Judge Bradberry permitted MercExchange, at MercExchange's request, to introduce "evidence" of "damages" as "proxy" evidence of damages under its new theory of *indirect* infringement based on an entirely set of new direct infringers, as indicated above. In addition, MercExchange improperly contended that it would be entitled to an injunction on *domestic* transactions, because its damages are difficult to calculate or would somehow not make MercExchange whole. Neither MercExchange nor its experts have ever raised any contention, let alone evidence, that its damages cannot be calculated or that MercExchange would not be adequately compensated by damages alone. As a result, MercExchange should be precluded from presenting any infringement or damages theory against eBay on the '176 patent, and it was clear error for Judge Bradberry to deny eBay's motion.

VII. Appeal From Ruling Excluding Defendants' Trial Exhibit Nos. 300, 462, and 465, Which Are Critical to Fairly Cross-Examine the ReturnBuy "Confession."

As the Court is already aware, defendants have objected to, and appealed from, Judge Bradberry's ruling that MercExchange may offer the post-discovery "confession" of Mr. Walt Shill, former CEO of bankrupt ReturnBuy, which is now, for all practical purposes, defunct. (Appeal served on Saturday, April 12, 2003, and filed on April 14, 2003.) Unless the Court grants eBay's appeal and grants eBay's Motion in Limine No. 1 (Dkt. Nos. 300, 301, 378), defendants must also respectfully appeal from Judge Bradberry's decision to

exclude the defendants' proposed Trial Exhibit Nos. 300, 462, and 465. The evidence is critical for the jury to evaluate the credibility of the ReturnBuy "confession" and license.

Exhibit 465 is the order from the United States Bankruptcy Court of the Eastern District of Virginia, showing that the ReturnBuy "license agreement" was in fact abandoned in bankruptcy by the purchaser of ReturnBuy's other assets, Jabil Circuit, which now operates the former ReturnBuy site. Thus, Exhibit 465 shows that MercExchange likely will never receive a *penny* from the RetumBuy "license," which was manufactured solely for this case. Moreover, Exhibit 465 shows that, as a matter of law, the Court has held that Jabil Circuit is *not* bound by the ReturnBuy "confessions" or license, even though it is now operating the former Return-Buy site. Thus, if the Court allows the ReturnBuy "confes-sion" and license into evidence over defendants' objections and appeal, it should allow the jury to consider Exhibit 465 as well. No basis exists to exclude the evidence, and the Court's order excluding it, while allowing MercExchange to intro duce the "confession" and "license," will severely prejudice defendants.

Similarly, defendants must respectfully appeal from Judge Bradberry's decision to exclude Defendants' Trial Exhibit Nos. 300 and 462, Judge Friedman's February 26, 2003 orders (Dkt. Nos. 277 and 278), which indicate that: "*Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half com, and MercExchange in this case.*" First, MercExchange has waived any objection to the admission of this exhibit because MercExchange listed the exhibit on its own trial exhibit list. Second, exhibits 300 and 462 are also essential for the jury to consider when it evaluates the ReturnBuy "confession" and now-abandoned "license." Again, if the Court permits MercExchange to tout the Return-Buy "confession" and "license," no evidentiary basis exists to

exclude exhibits 300 and 462. MercExchange cannot introduce only the RetumBuy "confession"/license evidence it likes, and exclude all of the evidence that defendants require to cross-examine it. Consequently, although *all* of the RetumBuy evidence should be excluded, as set forth in eBay's Motion in Limine No. 1 (Dkt. Nos. 300, 301, 378), if the Court elects to introduce *any* of it. the Court should also allow the jury to consider Defendants' Trial Exhibits 300. 462. and 465.

VIII. RULING EXCLUDING MR. WOOLSTON'S ADMISSIONS TO THE WALL STREET JOURNAL (DEIS. TRIAL EX. 35).

In 1999. while Mr. Woolston's sights were fixed on Priceline.Com and its Name-YourOwn-Price system, Mr. Woolston approached the media. including the Wall Street Journal, to announce his challenge to the Priceline.Com patent. The '265 patent had *already issued,* but Mr. Woolston was not interested in eBay. The Wall Street Journal quoted Mr. Woolston as stating that eBay did *not* practice the technology in his applications:

> "Mr. Woolston said he didn't believe online-auction sites like the popular eBay Inc., San Jose, Calif., infringed on his patent technologically."

(Def. Trial Ex. 35 (Scott Thurm, *Inventor Disputes Key Auction Patent Held by Priceline,* THE WALL STREET JOURNAL (Jan. 13, 1999) at B2)). MercExchange has complained about the language of the Wall Street Journal quote, but announced to the Court that "the statement as incorrectly quoted was believed true at the tirne it was made." (Dkt. No. 162; Merc. Reply Markman Br. at 30 (July 23, 2002) (emphasis added)).

At trial. MereExchange intends to argue that eBay is a "willful infringer" of the '265 patent, notwithstanding Mr. Woolston's statements to the Wall Street Journal. The article is an admission by a party-opponent and it is clearly

admissible also to respond to MercExchange's willful infringement allegations. Nonetheless, while Judge Bradberry allowed numerous hearsay statements of third-parties regarding their opinions of the Woolston patent, Judge Bradberry excluded Mr. Woolston's admissions to the Wall Street Journal. The Wall Street Journal may be the most respected, reliable business publication in the Nation. The article is a critical piece of evidence in this case, is clearly admissible, and excluding it was clearly erroneous.

IX. ORDER DENYING MIL NO. 3 (DKT. NOS. 304, 305, 380) IN PART AND ALLOWING POST-DISCOVERY OPINION TESTIMONY OF EBAY'S COMPETITOR, AUTOTRADER, AND THE AUTOTRADER LICENSE.

Defendants respectfully request the Court overrule the decision to admit the AutoTrader license and the proposed, undisclosed opinions of eBay's competitor, AutoTrader, at trial. As set forth in defendants' briefs (Dkt. Nos. 304, 305, 380), *both* of MercExchange's experts opined *as* recently *as February 28, 2003* that the unfavorable AutoTrader license agreement (which MercExchange had withheld from production for over a month) was *irrelevant*. On April 4, 2003, in yet *another attempt* to change his mind at the last minute, Mr. Evans served a new expert declaration, attempting to opine that the AutoTrader agreement was significant. Mr. Evans' April 4, 2003 declaration is an entirely new theory, and MercExchange has no excuse for waiting to offer it until then. MercExchange served Mr. Evans' new declaration *after* his expert deposition, and *four months after* MercExchange and AutoTrader entered into the agreement. As set forth in defendants' briefs, the AutoTrader evidence is inadmissible under the Rules of Evidence, and in view of MercExchange's delays and belated attempt to change its damages theories yet again, should be excluded. Moreover, defendants' respectfully submit that permitting an AutoTrader witness to take the stand and offer opinions about the Woolston patent *is* clearly

erroneous—the AutoTrader witness did not submit any report entitling him to provide opinion testimony, and as set forth in eBay's underlying motion, eBay has been denied any opportunity to take discovery regarding the AutoTrader negotiation and agreement.

The evidence should be excluded; but if it is not, the Court should order MercExchange to produce all documents sent to, or received from AutoTrader, and should order MercExchange to present the proposed AutoTrader witness, and the MercExchange representatives who negotiated with him, for deposition no later than the end of the week.

X. APPEAL FROM RULING DENYING MOTION IN LIMINE NO. 4 (DKT. 306, 307 AND 381) AND ALLOWING ADMISSION OF IRRELEVANT, LITIGATION-INSPIRED SETTLEMENT AGREEMENT WITH GOTO.COM.

Defendants also respectfully appeal Judge Bradberry's ruling admitting MercExchange's settlement of its litigation with GoTo.com. Contrary to MercExchange's contention, the agreement has no bearing on the "commercial success and nonobviousness of the '176 Patent. The GoTo agreement merely illustrates that MercExchange with its "litigious nature," was able to capitalize on a unique situation—GoTo had access to escrow accounts set up for such contingencies. had discontinued its allegedly infringing shopping business. and thus was able to pay the settlement at "zero cost." Indeed GoTo's corporate designee explained its motivation in signing the agreement: "we wanted basically never to deal with MercExchange again." *(See* McFarland Decl. (Dkt. No. 307), Ex. 1 (Ryan TR 10:11-12.)). Plaintiff's expert. Mr. Troxel. similarly testified that it was just a "settlement for past infringement and "what GoTo.com was willing to pay for past infringement to get out of the case." Troxel TR 39:8-16, 49:5-7. MercExchange's strategy is not new; the courts have

repeatedly rejected attempts to rely on such litigation-inspired agreements.[4]

Moreover, the agreement's inclusion of GoTo's inadmissible lay, hearsay opinion acknowledging the "validity and enforceability of the '176 patent" is misleading and preju dicial. (*See* Merc. Tr. Ex. 830, P12). As explained in defendants' Motion in Limine No. 4 (Dkt. Nos. 306, 307, 381), the opinion—like the alleged ReturnBuy "confession"—came at no cost to GoTo who was being released from any liability, had its settlement payment covered by an earlier funded contingency escrow, and was getting out of the business. The "acknowledgement" is gratuitous hearsay opinion, and enormously prejudicial. Accordingly, defendants respectfully appeal Judge Bradberry's admission of the irrelevant agreement and submit that, even if the Court does not grant the appeal on this issue, the Court redact the extraordinarily

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[4] While "it is not unusual to see astute businessmen capitalize on [the issuance of a patent] by erecting a temporarily successful licensing program," such licensing "programs are not infallible guides to patentability." *EWP Corp. v. Reliance Universal Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985) (holding patent invalid under Section 103 despite existence of licensing program). As in the case of the GoTo settlement, when it is "cheaper to take licenses than to defend infringement," a license does not prove that a patent is valid. *See Id.* The GoTo agreement is equally irrelevant to MercExchange's damages claim: "It is a century-old rule that royalties paid to avoid litigation are not a reliable indicator of the value of a patent, and should therefore be disregarded when determining reasonable royalty rates. This is because royalties paid under threat of suit may reflect the licensee's desire to avoid the risk and expense of litigation." *Wang Labs., Inc. v. Mitsubishi Elec. Am., Inc.*, 860 F. Supp. 1448, 1452 (C.D. Cal. 1993) (citing *Rude v. Wescott*, 130 U.S. 152, 164 (1889)). *See also Studiengesellschaft Kohle, m.b.H., v. Dart Indus., Inc.*, 862 F.2d 1564, 1572 (Fed. Cir. 1988) (a "royalty, if any, resulting from [settlement] should not be considered evidence of an 'established' royalty and thus a measure of adequate damages here. . . . License fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation.") (internal citation and quotation omitted).

prejudicial hearsay "acknowledgment" regarding the validity and enforceability of the '176 patent.

XI. APPEAL FROM ORDER EXCLUDING DEFENDANTS' EXHIBIT NO. 567, A PATENT LICENSE AGREEMENT BETWEEN EBAY AND NES.

Defendants also respectfully appeal from the Court's decision to exclude evidence of eBay's license with NES, Defendants' Trial Exhibit 567. The Court excluded the NES patent license agreement as irrelevant. However, this agreement is relevant to a number of issues. First, the license is relevant to refuting Plaintiff's damages claim. In determining a reasonable royalty, Plaintiffs experts have solely focused on MercExchange's suspect licenses with companies such as Aden, GoTo.com, and Autolrader *as* "comparable" licenses. Plaintiff has conveniently ignored the comparable eBay/NES license. As a result, Defendants are entitled to submit the eBay/NES license to the jury as evidence of what royalty rates and conditions eBay would have demanded in a patent license agreement.

In addition, as the Court will recall from most of MercExchange's filings in this case, MercExchange will argue to the jury that eBay has "no respect" for patents or intellectual property rights, and a "rank" "willful infringer" of Mr. Woolston's patents. To rebut MercExchange's inflammatory eBay-is-"rank" theory, eBay is entitled to introduce evidence of its license agreements with others, including the NES license agreement, Trial Exhibit 567. Allowing MercExchange to present its one-sided argument, without a fair opportunity for eBay to present evidence in rebuttal, would severely prejudice eBay in the eyes of the jury, and, eBay believes, would be clearly erroneous.

XII. APPEAL FROM RULING ALLOWING MERCEXCHANGE TO GIVE TO THE JURY ALMOST *70* IRRELEVANT, CONFUSING, AND MISLEADING PATENT APPLICATIONS OF THE DEFENDANTS.

Defendants eBay and Half.com respectfully request that this Court reverse the decision to allow MercExchange to give to the jury, upon a showing of relevance, almost *70* of the defendants' confidential, pending patent applications.[5] There is no reason to allow MercExchange to waste time attempting to establish the non-existent relevance of the patent applications. As at least four of the named inventors have testified during their deposition the defendants' patent applications *do not necessarily reflect the defendants' actual systems*. The jury would thus be placed in the untenable situation of having to guess as to those features that are implemented in the accused systems and those that have not been implemented. Accordingly, the patent applications lack any probative value to the operation of the defendants' web sites.[6]

Moreover, even if the patent applications had some limited probative value, the admission of the applications is unnecessary given the fact that MercExchange has received, during discovery, detailed engineering documents technical

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[5] The exhibits at issue are MercExchange proposed trial exhibits 105, 107, 111-115, 190-194, 218, 274, 275, 295, 296, 297, 433, 434, 554—615, and 817-819. Objections to Exhibits 338-342 were reserved for the trial court.

[6] Contrary to MercExchange's arguments, the patent applications are not probative of notice, either. The mere fact that the PTO cited the Woolston patents during the prosecution of the defendants' own applications does not mean that the defendants' actual systems, which are not necessarily reflected in the patent applications, infringe the Woolston system. Similarly, the fact that the PTO cited the Woolston patent says nothing about the validity of the Woolston patents. It only means that the Woolston patents were handy to the various examiners.

specifications, source code and detailed deposition testimony clearly and completely detailing how the defendants' systems operate. MercExchange should rely on this *direct* evidence, rather than *indirect* evidence found in lengthy and confusing patent applications, to attempt to prove its case.

Not only does the evidence lack any probative value, but admission of the numerous patent applications will overwhelm, confuse, and possibly mislead the jury and will be a tremendous waste of time at trial. Requiring the jury to review almost *70* patent applications, amounting to thousands of pages of documents, then determine whether the inventions described in the patent applications were ever implemented in the defendants' systems, and, finally, whether those implemented features infringe the patents-in-suit would confuse the jury and waste time.

In similar circumstances, in considering whether a district court erred by excluding a defendant's patent the Federal Circuit stated that admission of the evidence would have injected *frolics* and *detours* and would have required introduction of counter-evidence all likely to create side issues that would have unduly distracted the jury from the main issues." *Glarus* v. *H.H. Robertson Co.*, 797 F.2d 1564, 1572-73 (Fed. Cir. 1986) (emphasis added). The risk that defendants' patent documents—without time-consuming explanation—will confuse the issues and mislead the jury is manifest, and substantially outweighs whatever limited probative value may be attributed to these documents.

XIII. Appeal From Ruling Denying Motion in Limine No. 11 (Dkt Nos. 330, 331, 388) and Allowing Alfred Weaver to Offer an Opinion About Legal "Transfer of Ownership."

Defendants also respectfully appeal Judge Bradberry's ruling denying defendants' motion in limine No. 11 (Dkt. Nos. 330, 331, 388). The parties, and even Dr. Weaver, agree

that he is not qualified to offer opinions about *the law*, and opinions about what is required to *transfer ownership* under the law. Nonetheless, Dr. Weaver intends to opine that ownership is *legally transferred* by eBay's system, an opinion that is incorrect as a matter of law, and undeniably *outside* Dr. Weaver's area of expertise. Dr. Weaver admitted that his opinion is based on a legal interpretation under contract law, upon which he opines that a buyer of online goods has a "legally cognizable right to a good" based on the terms and conditions of a user agreement. Such an opinion is clearly outside of Dr. Weaver's experience and purported expertise as a computer science professor. Dr. Weaver may testify about whether he believes that eBay has a "data record" in its system. He may testify about whether he believes that eBay "modifies" the "data record." However, *Daubert* prohibits Dr. Weaver from testifying that the "modification" of the "data record" *transfers legal ownership*, because he has *absolutely no* basis for, and no expertise to provide, this erroneous *legal* opinion.

The Supreme Court's *Daubert* opinion is very clear, and permitting Dr. Weaver to offer the opinion that eBay *transfers legal ownership* based on contract interpretation would indisputably violate it. Consequently, defendants respectfully submit that Judge Bradberry's decision is clearly erroneous, and respectfully appeal from and request reversal of, his ruling on defendants' motion in limine No. 11 (Dkt. Nos. 330, 331, 388).

XIV. Appeal From Ruling Excluding Defendants' Exhibits Demonstrating the Value That MercExchange Would Have Assigned to the Patents in Suit in a "Hypothetical Negotiation."

Defendants respectfully appeal Judge Bradberry's ruling excluding defendants' exhibits 362, 374, 375, 403, 406, 564, and 565 as irrelevant. These exhibits relate to MercExchange's dispute with two of its co-founders and are

directly relevant to MercExchange's hypothetical-negotiation damages theory. The now-excluded exhibits relate to MercExchange's buy-out of two of its co-founders, Jackson Matney and Jeffrey Bartlam, and document MercExchange's negotiation and ultimate assignment of a value to the present suit against defendants. This evidence is undeniably relevant to the value the parties would have assigned to the patents in the "hypothetical negotiation" upon which MercExchange bases its damages case.

XV. Appeal From Ruling on Motion in Limine No. 13 (Dkt. 338 and 339) Allowing "Expert" Testimony of Dr. Troxel, Which is Solely Limited to How to Perform Simple Multiplication.

In motion in limine no. 13 (Dkt. 338 and 339), the defendants sought to preclude MercExchange from offering any opinion from one of its professed damages "experts," Richard Troxel. The basis for the motion was that the only testimony provided by Dr. Troxel was not helpful to the jury because it related to how to perform a simple mathematical process, namely multiplication. According to Dr. Troxel's own testimony, he is not offering any opinions on the appropriate royalty rate in this case, or the appropriate royalty base. Instead, Dr. Troxel accepts the royalty rate provided to him by his colleague, Larry Evans. He then applies that rate to a royalty base supplied to him by the lawyers at Hunton & Williams. All Dr. Troxel does is perform the trivial multiplication.

Dr. Troxel's proffered testimony is contrary to Fed. R. Evid. Rule 702 and the Supreme Court's holding in *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993). Dr. Troxel's purported "expertise" in this case consists solely of his ability to perform basic mathematical calculations for Dr. Evans. The reality here is that MercExchange has not offered Dr. Troxel as a witness to assist the jury in understanding the "reasonable royalty" evidence. Rather, MercExchange prof-

fers Dr. Troxel in order to buttress the testimony of its other experts. In his two individual reports, Dr. Troxel repeatedly volunteers praise for Evans' "reasonable royalty" analysis. Moreover, in their joint report, Drs. Evans and Troxel express their approval for the analysis of MercExchange's technical experts. Of course, Rules 404(a)(3) and 608(a) prohibit this type of "vouching" for another witness's opinions. Because he adds nothing substantive or admissible to this case, Dr. Troxel should not be permitted to testify at trial.

XVI. CONCLUSION.

For the foregoing reasons, and for the reasons set forth in defendants' previous briefs and at oral argument, defendants respectfully appeal the decisions discussed herein.

Dated: April 15, 2003

Respectfully submitted,

By: _____

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UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

[Filed Apr. 17, 2003]

No. 2:01CV736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC.,et al.,

Defendants.

ORDER

This matter is before the Court for resolution of more than twenty outstanding motions. The motions were addressed at the beginning of the final pretrial conference and are set forth in the order in which they were addressed. For ease of reference, each of the motions will be referred to by the document number assigned them in the file.

Plaintiff's motion to compel and to resume depositions of Pierre Omidyar and John Monahan, Jr., (Doc. 243), filed in the fall of 2002, has been resolved, and the issues presented therein are MOOT.

Plaintiff's proposed scheduling order, (Doc. 248), filed January 10, 2003, is MOOT.

Plaintiff's motion for entry of an order precluding eBay and Half.com from presenting claims defenses or evidence at trial that rely, in whole or in part, on the source codes used for the production of each version of their website, (Doc. 252), is DENIED. Some of the material has been furnished, and the issue becomes what is relevant for trial. To the extent

that defendants have not furnished information, no new source code evidence may be relied upon by defendants for any reason at trial.

EBay's motion to strike the declarations of Brian M. Buroker, Alfred C. Weaver, and Jonathan W. Palmer, (Doc. 253), and any reference to the ReturnBuy "confession" is DENIED. The declarations, offered in support of plaintiff's motion for partial summary judgment, are not the type of exhibits that would normally and ordinarily be given to a jury and do not constitute "evidence."

Plaintiff's motion to enforce a protective order and to strike the designations of Jonathan Simon and Michael Cornell, only recently revealed, as nontestifying experts, and further to bar defendants from relying upon their opinions and findings as may be presented through defendants' other factual and expert witnesses at trial, (Doc. 296), is DENIED. Simon and Cornell will not testify at trial. However, their assistance to defendants may take the form of advice, relied upon by defendants and their experts, and may be presented through testimony at trial. So long as their help does not result in new and unexpected opinions, there is no basis upon which to compromise their assistance to the defense. Each side is entitled to retain experts to assist them in preparation for trial. Federal Rule of Civil Procedure 26(b)(4)(B) provides the circumstances under which discovery of such experts may be compelled, but the circumstances do not exist in this case, and plaintiff is not entitled to the relief.

Plaintiff's motion to exclude from testimony eBay's expert witnesses, who testified in connection with the '051 Patent, (Doc. 294), is GRANTED, in part, and DENIED, in part. EBAY has presented four expert witnesses in its behalf: Arthur Keller, Michael Shamos, Steven Crocker, and Charles Plott. Plaintiff correctly asserts that none of the witnesses have ever provided a response as contemplated by Federal Rule of Civil Procedure 26(a)(2), in the form of a report with

respect to the '176 and '265 Patents. Their testimony consisted of an attack, ultimately

* * * *

Pro hac vice applications for the admission of three California attorneys on defendants' behalf, (Docs. 367, 368, 369), have all been granted, and therefore, the issue is MOOT.

Defendants' motion for an order excluding any reference to or reliance upon the ReturnBuy "confession" and arrangements with plaintiff, (Doc. 300), is DENIED. The arguments of each counsel address the merits of the evidence, not a matter of admissibility, but definitely a matter of weight and credibility.

Defendants' motion for an order excluding any reliance by plaintiff on licensing agreements with Aden Enterprise and subsidiaries as proof of "damages," (Doc. 302), is DENIED. The pleadings reflect that the parties are talking about evidence, the weight and credibility of which must be weighed by the trier of fact. There is no issue of admissibility.

Defendants' motion for an order excluding plaintiff from referring to or relying upon statements and comments by representatives of Auto Trader, (Doc. 304), is DENIED. The Court finds that the press release is, in and of itself, inadmissible. However, an Auto Trader representative may be offered by plaintiff to address an issue involving damages. The defense has the absolute right to cross-examine such witnesses about their relationship with plaintiff, to undermine and impeach their testimony, and to place the credibility of the testimony in issue. The matter will be resolved by the triers of fact.

Defendants' motion for an order excluding any reference to or reliance upon the settlement agreement between plaintiff and GoTo.com regarding the '176 Patent, (Doc. 306), is DENIED. Plaintiff offers the evidence in connection with dam-

ages, and defendants argue that the testimony cannot support damages. This is a factual dispute to be resolved by the triers of fact.

Defendants' motion to exclude any evidence or testimony regarding eBay's offer to purchase plaintiff's patent portfolio, (Doc. 308), is GRANTED. The Court has been advised that the parties to the meeting, including counsel for both sides, agreed that matters which were raised in the course of the meeting would be treated confidentially and would not be revealed outside of the meeting. The parties were exploring possibilities, and nothing relevant to the trial developed out of the meeting. Accordingly, it is the Court's judgment that all statements made in the course of the meeting from which this motion flows, shall be excluded. Neither side shall be entitled to rely upon any representations nor to reveal the contents of the discussions.

Defendants' motion to strike plaintiff's effort to expand the '265 Patent, (Doc. 310), is rendered MOOT, the issue having been resolved by Order of the trial court on April 4, 2003.

Defendants' motion to prevent plaintiff from offering a new "entire market value" theory of damages, (Doc. 312), is GRANTED. The assertion comes too late in the pretrial process for defendants to reasonably discover the basis upon which the theory arises or to be prepared to defend against it and it may not be used at trial.

Defendants' motion for an order excluding evidence of a Department of Justice investigation of eBay, (Doc. 314), is GRANTED. The investigation, which was civil in nature and did not result in charges or any adverse consequences to eBay, will improperly prejudice the jury and has no probative value.

* * * *

defendants' systems, (Doc. 322), is DENIED. The attack is on evidence that "might be" and is without a proper context

upon which the Court can determine whether such evidence would be admissible. The trial court will address such issues as they are raised, but this Court is not inclined to enter a blanket order precluding the introduction of such evidence.

Defendants' motion to exclude any reference to or reliance upon evidence regarding alleged '176 Patent infringers, (Doc. 326), is DENIED. The motion addresses evidence which might be offered by plaintiff regarding Yahoo, BestBook-Buys, BookFinder, and other internet sites. Defendants express concern that plaintiff will attempt to use evidence about those sites as a part of its damages in establishing indirect patent infringement. That subject is a matter to be resolved by the trial court as the evidence is offered.

Defendants' motion to exclude Ophir Freider, Ph.D., from offering expert infringement opinions or testimony, (Doc. 328), is DENIED. Perusal of Freider's report reflects a highly professional expert witness and a detailed and sophisticated expert report. The issue is one of weight and credibility, not admissibility.

Defendants' motion to exclude the expert testimony of Dr. Alfred C. Weaver about when ownership of a good transfers, (Doc. 330), is DENIED. The trial court will determine whether Weaver's opinion may be appropriately rendered, but in the context in which the matter is presented, preclusion of testimony will merely usurp the judgment of the trial court, nothing more.

Defendants' motion to preclude the testimony of plaintiff's proposed expert witness, Richard B. Troxel, (Doc. 338), is DENIED. Troxel's qualifications may be examined at trial, and the trial court will determine whether Troxel can testify. However, the motion does not provide evidence which would support entry of a judgment by this Court barring Troxel from appearing on plaintiff's behalf.

The Clerk shall mail a copy of this Order to all counsel of record.

[Illegible]
United States Magistrate Judge

Norfolk, Virginia
April 17, 2003

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., *et al.*,

Defendants.

Norfolk, Virginia
April 22, 2003

PRETRIAL MOTIONS

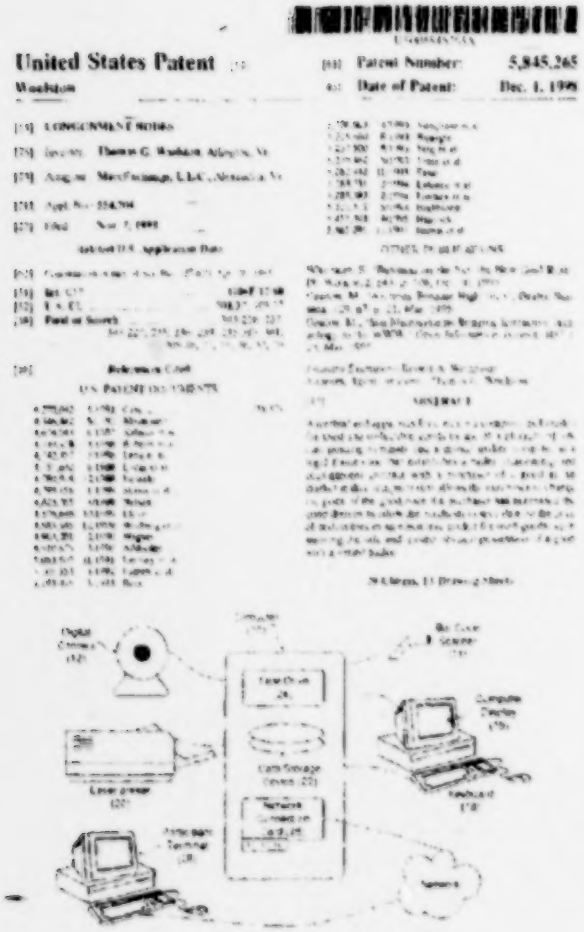
MORNING SESSION

BEFORE: THE HONORABLE JEROME B. FRIEDMAN
United States District Judge

* * * *

[24] I also—well, my law clerk prepared kind of a glossary. And I note that—and again, I have not really looked through the jury instructions very carefully because that's a long way away, and I'll deal with that when I have to. But it appears that in looking through the jury instructions from the plaintiff, that the proposed jury instructions were the ones that were consistent with the Markman opinion weren't as detailed as the ones that the defendants have submitted. The defendants have indicated that they object to the plaintiff's proposed instructions on Markman, arguing that without the court's reasoning behind the claims construction, the jury might be confused.

I have read some of the defendants' propose instructions, and it appears what they have done is they have taken large paragraphs from the Markman opinion discussing the court's analysis behind its claim construction. I just think personally that that's too much for a jury to handle and believe simple instructions on the claims is more appropriate. But what I've done--and I'll hand this to you all. In fact, I'll put it up here right now so that will have it. But these are simply the definitions that the court decided based on the Markman hearing with regard to these two patents. And, again, I'm not sure whether the average person is going to be able to understand what in the world these things say,but I thought I would give each of them one of these so they



United States Patent [19]

Washington

[11] Patent Number: 5,845,265

[45] Date of Patent: Dec. 1, 1998

BEST AVAILABLE COPY

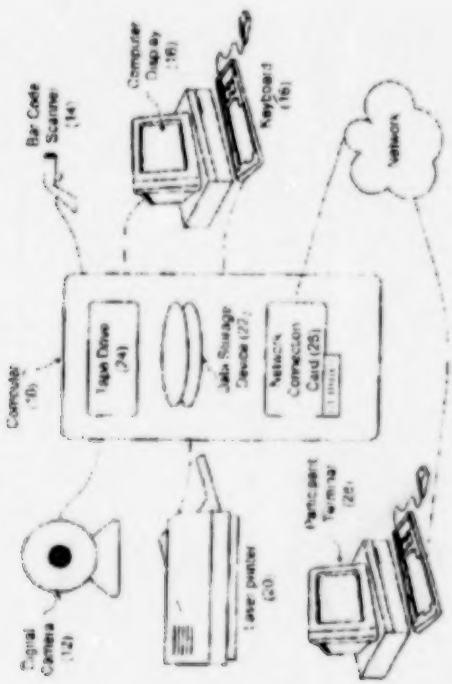
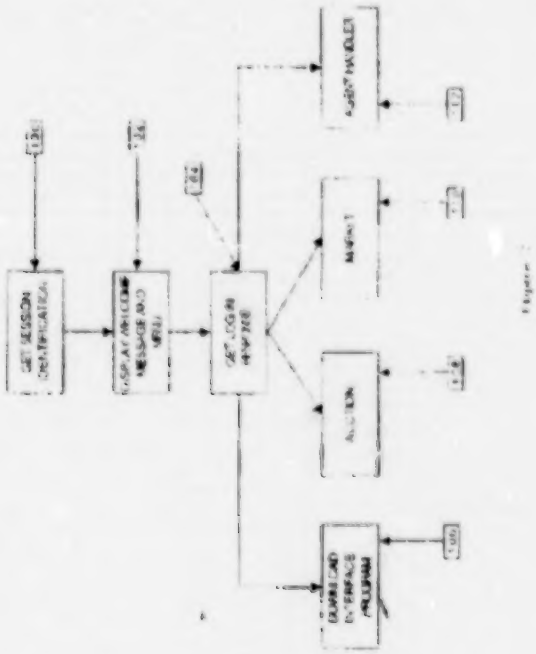

Computer Display (16)
Keyboard (16)
Bar Code Scanner (14)
Network
Computer (10)
Tape Drive (24)
Jaz Storage Device (22)
Network Connection Card (28)
Participant Terminal (26)
Laser printer (20)
Digital Camera (12)

Figure 1



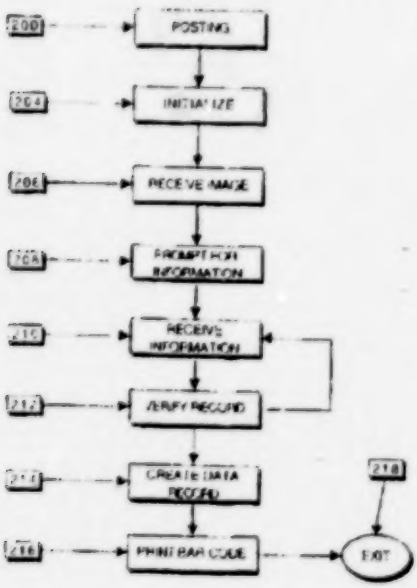
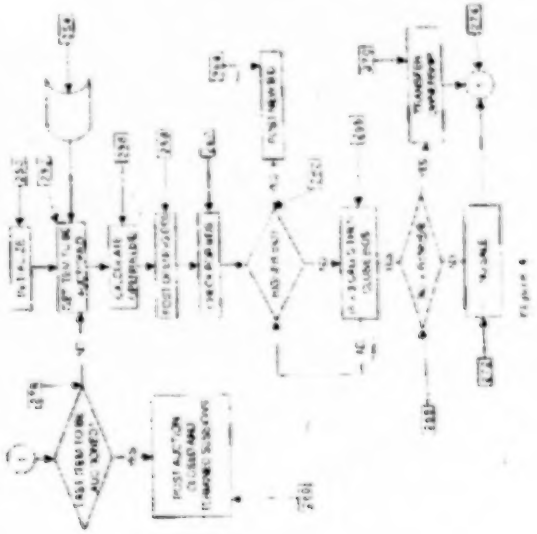

200
POSTING
204
INITIALIZE
206
RECEIVE IMAGE
208
PROMPT FOR INFORMATION
210
RECEIVE INFORMATION
212
VERIFY RECORD
214
CREATE DATA RECORD
216
PRINT BAR CODE
218
EXIT

Figure 3



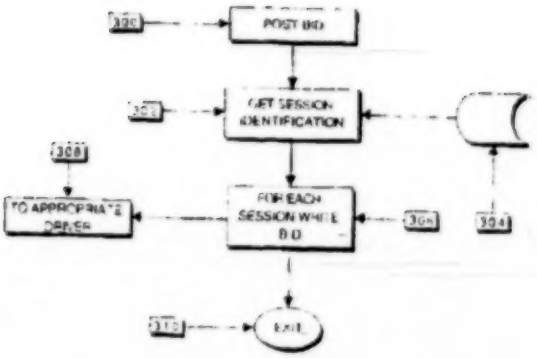

300
POST BID
302
GET SESSION IDENTIFICATION
308
TO APPROPRIATE ORDER
FOR EACH SESSION WHILE DO
306
304
310
EXIT

Figure 3

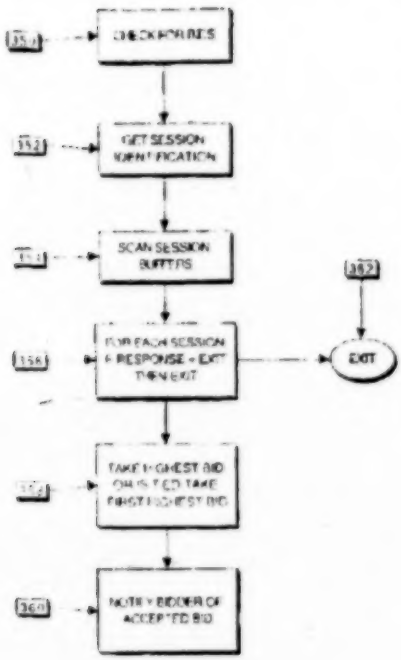

GET SESSION IDENTIFICATION
SCAN SESSION BUFFERS
EXIT
NOTIFY BIDDER OF ACCEPTED BID

Figure 6

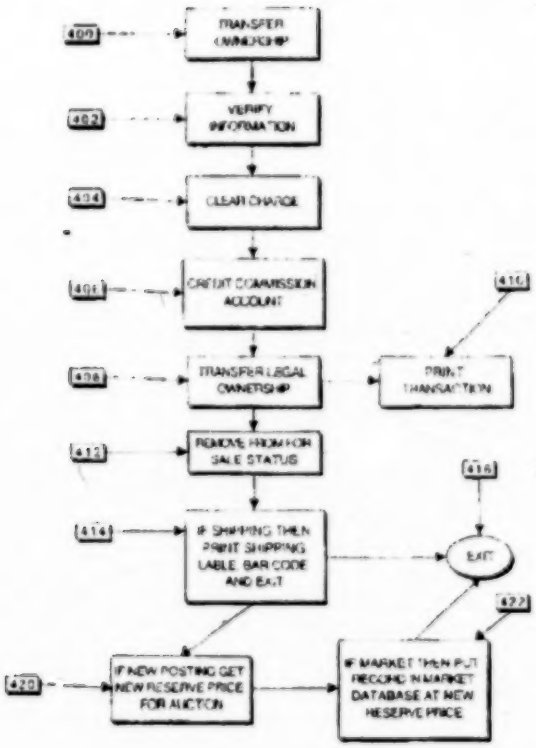
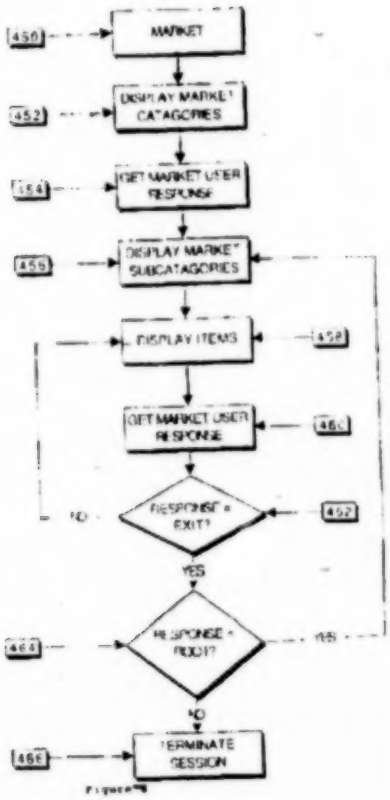

400
TRANSFER OWNERSHIP
402
VERIFY INFORMATION
404
CLEAR CHARGE
406
CREDIT COMMISSION ACCOUNT
410
PRINT TRANSACTION
408
TRANSFER LEGAL OWNERSHIP
412
REMOVE FROM FOR SALE STATUS
416
414
IF SHIPPING THEN PRINT SHIPPING LABLE BAR CODE AND EXIT
EXIT
422
420
IF NEW POSTING GET NEW RESERVE PRICE FOR AUCTION
IF MARKET THEN PUT RECORD IN MARKET DATABASE AT NEW RESERVE PRICE

Figure 7


450
MARKET
452
DISPLAY MARKET CATAGORIES
454
GET MARKET USER RESPONSE
456
DISPLAY MARKET SUBCATAGORIES
458
DISPLAY ITEMS
460
GET MARKET USER RESPONSE
462
RESPONSE = EXIT?
NO
YES
464
RESPONSE = RODI?
YES
NO
466
TERMINATE SESSION

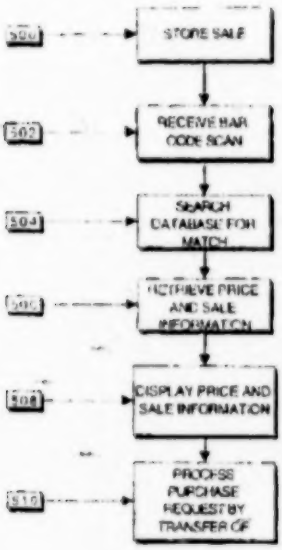

500
STORE SALE
502
RECEIVE BAR CODE SCAN
504
SEARCH DATABASE FOR MATCH
506
RETRIEVE PRICE AND SALE INFORMATION
508
DISPLAY PRICE AND SALE INFORMATION
510
PROCESS PURCHASE REQUEST BY TRANSFER OF

Figure 5

550
DATA PROCESSING
552
DOWNLOAD DATA
554
PLOT SALE DATE/PRICE
556
CALCULATE STATISTICS
558
PRINT RESULTS

Figure 10

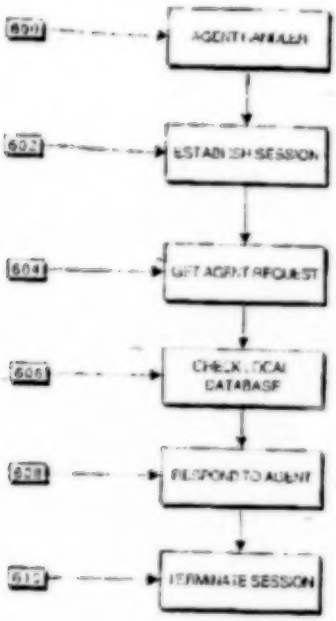
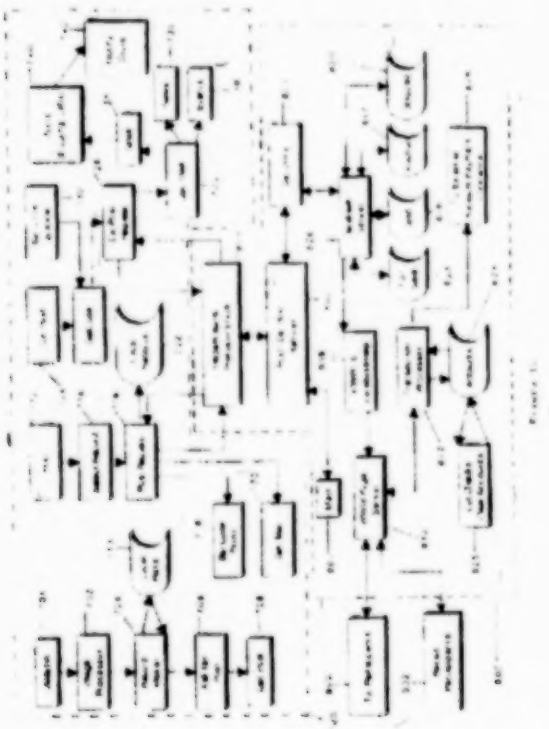
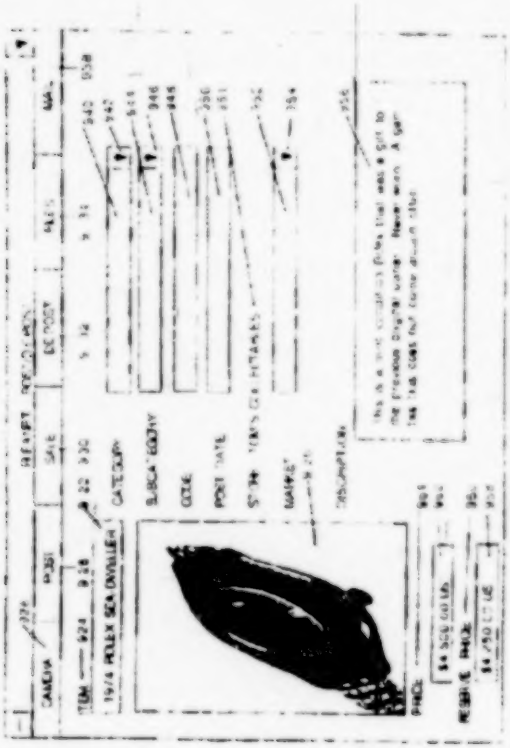

602
604
606
608
612
ESTABLISH SESSION
GET AGENT REQUEST
CHECK LOCAL DATABASE
RESPOND TO AGENT
TERMINATE SESSION

Figure 2A





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400

CONSIGNMENT NODES

BACKGROUND OF THE INVENTION

This application is a continuation in part of U.S. patent application Ser. No. 08/427,820 filed Apr. 26, 1995, incorporated herein by reference in its entirety. The present invention relates to used and collectible goods offered for sale by an electronic network of consignment stores. More specifically, the present invention may be an electronic "market maker" for collectable and used goods, a means for electronic "presentment" of goods for sale, and an electronic agent to search the network for bard to find goods. In a second embodiment to the present invention, a low cost posting terminal allows the virtual presentment of goods to market and establishes a two tiered market of retail and wholesale sales.

Certain items and used goods have a large following of collectors. These items include baseball cards, dolls, pens, watches, comic books, stamps, coins, and the like. It is well known to establish shops specializing in these items. It is also well-known to establish boards for the sale of used goods. And is known to sell new goods on a special television channel like the Home Shopping Channel.

The prior art does not provide a means to electronically market used goods or provide an avenue to allow participants to speculate on the price of collectable or used goods in an electronic market place. Moreover, the art does not show a way for small to medium size business to use a low cost posting terminal in conjunction with a market maker computer to collectively create a virtual market for used and collectible goods. Thus, to address the short comings of the art the present invention has the following objectives:

SUMMARY OF THE INVENTION

To establish a low cost computer means for a used good and/or consignment stores to establish a "trusted" computerized market for used and collectible goods.

To establish a computer means to administrate and provide inventory tracking to used good and/or consignment stores when the stores make a virtual presentment of a good to a computerized market and the good is sold at the virtual market and/or the good is sold through the store front.

To establish a computer means to double tier a computerized market for goods, where the first tier is a retail price and the second tier is a wholesale or dealer to dealer price and an authorized dealer has pre-approved access to the dealer-to-dealer price and may charge and display the retail price to a local store customer.

To establish a computer means for archiving records of transactions in a computerized market for collectible and used goods and distributing the archive to computer terminals that may then research and analyze valuation and price trends of collectible and used goods in the computerized market.

To establish a computer means for a used good store or consignment store to sell used goods and collectibles electronically and to provide the automatic electronic re-sale of goods purchased.

To establish a market for goods with a dominant electronic "market maker" node to allow collectors to speculate on the collectable goods market.

To provide the excitement of a "live" auction house type atmosphere to remote participants in a electronic auction.

To provide data analysis to the market makers of collectable good or consignment node users on the price, price movements, and quantity of collectable goods in the virtual market.

To provide an electronic agent interface for participants to search a plurality of consignment nodes to search for a used good or collectable item.

To provide a means to track down the owner of a particular used or collectable good.

Further, to provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable to an electronic market.

The foregoing objects and advantages of the invention are illustrative of those which can be achieved by the present invention and are not intended to be exhaustive or limiting of the possible advantages which can be realized. Thus, these and other objects and advantages of the invention will be apparent from the description herein or can be learned from practicing the invention, both as embodied herein or as modified in view of any variations which may be apparent to those skilled in the art. Accordingly the present invention resided in the novel methods, arrangements, combinations and improvements herein shown and. described.

The present invention is a network of Consignment nodes and a low cost easy to use posting terminal for the virtual presentment of goods to market. A consignment node is a computer database of used goods preferably operated by a used good, collectable shop keeper or a bailee. A posting terminal is a low cost easy to use computer and computer peripheral devices used by a small store owner to present goods to a computerized marker and track the sales of goods and control the posted inventory. All consignment nodes users or operators, hereinafter users, are "trusted" licensees or franchisers of the software and hardware necessary to create and operate a consignment node. Thus, the network provides a trusted means for consignment node users, e.g. shop keepers, to establish electronic markets for collectable goods, establish electronic auctions, establish a means for searching each others shops to locate hard to find collectibles items, and a means to electronically present goods to a market. The present invention will allow, or license, certain consignments nodes to become a dominant market maker for a particular

class of goods, for example, a consignment code franchise may be given the rights to establish the dominant market for collectable antique pens. It is understood, a central market maker computer may be virtually divided into different markets with posting terminals used as the means for the market to obtain virtual title goods. Other consignment nodes, after taking physical possession of a good, may make an electronic presentment of that good to such a dominant consignment node market. Thus, a local collector of antique pens may bring a pen to a convenient consignment node in Smalltown, USA, the consignment network would allow this collector to electronically "present" his pen to the dominant market make node for antique pens in for example, Chicago. Participants, e.g. customers and collectors (hereinafter "participants"), may reach a dominant node's market, or any other consignment nodes electronic store, from his or her home by logging on from a PC located at the participant's home to their locally operated consignment node and reaching the distant consignment node through the network of consignment nodes. Thus, each consignment node user, e.g. shop keeper, has a potential participant, i.e. customer base, of all consignment node participants. in other words, a potentially huge customer base that incurs the minimal cost of a local consignment node connection may reach any other consignment node through the consignment node network. And local collector's may economically participate in the collectable markets by using local access to a convenient consignment node "trusted" bailee, and electronically presenting collectable goods to an electronic market.

A consignment node in a simple form may have a computer 10, a digital camera 12, a bar code scanner 14, a display 16, a printer 20, a keyboard 18, a database 22 and a network connection 26 collectively called hereinafter a consignment node. The present invention also has a user interface application program to execute an a user or participant's data terminal 28.

The consignment node may have four modes of operation: a software download mode, an auction mode, a market mode, and an agent mode. The software download mode allows a participant to log into the consignment node and receive a download of a participant interface application program. The auction mode allows a participant, from the participant interface application program, to log into a consignment node to partake in an electronic auction. The market mode allows a participant with the participant interface program to log into a consignment node to browse the consignment node database to search for a used or collectable good. The agent mode allows a participant to log into a consignment node to formulate a search request for a particular used good or collectable. The consignment node may search its own database for the requested good and/or generate agents to search and report back a search request of other consignment nodes.

The present invention may allow a participant to electronically purchase goods from a consignment node and to select whether the good should be shipped to a participant designed location or the participant may take electronic legal ownership of a good and post a new participant defined offer or reserve price. By the interaction of a plurality of participants buying and selling collectibles on a consignment node, posting "buy at" arid "sell at" quantities and prices the consignment node may establish a market or become a "market maker" for collectable goods. A participant may also elect to electronically transfer or present a good to a different consignment node or market. This allows a participant to speculate with collectable goods on the consignment node network's different markets and not incur the shipping costs with physically moving the goods, while providing a trusted means to assure potential buyers of the good's bona fide availability and legal title.

The consignment node operator or purveyor, hereinafter referred to as the consignment node user, establishes his con-

signment node by creating a database of used goods or collectibles, hereinafter the term 'goods" shall be used to reflect used goods, new goods and collectibles. The user takes the first good to be put on the database and invokes the consignment node software to create a data record. For example, the user owns a baseball card collector shop and the user wants to post his Babe Ruth collection. The user in this instance invokes the consignment node to "build the database mode" and the invention initializes the digital camera 15. The user then "photographs" or digitizes the image of the particular Babe Ruth card. The consignment system then displays an empty database record on the display to accept text information concerning the card.

The user fills out the display record with information concerning the particular Babe Ruth card. The consignment node verifies that enough information has been filled out in the displayed computer record, as well known to the electronic database arts, and accepts the record. It should be noted that the consignment node database record has data fields for the consignment node user to add value to his consignment node postings with subjective information such as condition of the card, special features such as autographed by Babe Ruth, and the like. Thus, the consignment node user may build business goodwill into his particular consignment node operation by establishing his own particular subjectivity and quality standards in item postings.

After the data record or the particular Babe Ruth card is accepted by the consignment node the system may print out a bar code label on the printer 20. The user may then put the particular Babe Ruth card into a plastic bag and affix the bar code label to the bag. The bar code labeling system becomes a useful inventory management tool discussed below.

It is understood in this first example that the consignment node user is the legal and equitable owner of the Babe Ruth card and that the user posted a reserve or offer price on the

particular card at his posting. In a second illustrative example, a local resident would like to post, for example, his Frank Robinson baseball card. The resident brings his Frank Robinson card to the baseball card store and tells the consignment node user he would like to offer his Frank Robinson card for a consignment sale. Again, the consignment node user invokes the system database posting mode and "photographs" the Frank Robinson card with digital camera 12. As above, the user fills in the system generated display prompt for information concerning the Frank Robinson card. The resident informs the user of the reserve or offer price and signs or agrees to a consignment contract with the consignment node user to accept the consignment terms to pay the consignment node user on the sale of the card, for example 6%, of sales price as a consignment fee. Again, the system may print the appropriate bar code for the Frank Robinson card. The consignment node user then takes possession of the card and may affix the bar code label to an appropriate cardholder. It should be noted by the consignment node user may again "add value" to his consignment node by entering subjective criteria in the database entry for authenticity, condition, special attributes and the like. The participant or local resident may now electronically present his Frank Robinson card to any consignment node, consignment node auction or consignment node market maker in the consignment node network.

These processes may be repeated again and again to establish a substantial database of goods for sale. It should be noted that the consignment node user may at his discretion take postings from reputable dealers or collectors via a facsimile machine or other forms of electronic or verbal presentment of a good for sale. It is within the sound discretion of an individual consignment node user to establish these practices. It is within the scope of the invention, however, to take electronic postings from other consignment node users or individuals over the network, as discussed below. Each consignment node user may be a franchisee of a central franchiser

and the franchiser may police the network to give quality control, detect fraud and revoke the franchises or licenses of poor quality consignment node users. Thus, the consignment node is a "trustee network for consignment node users providing value to the network by imposing a quality and performance structure on the consignment nodes. The same franchise enforcement scheme is also available to the low cost posting terminal embodiment to the present invention.

The Sale

A buyer, hereinafter participant, may electronically log onto a consignment node via a network connection by use of a PC with participant interface software, through an interactive television application, workstation, Internet browser Dr the like. The network connection drivers for the consignment node are discussed in detail below. The participant may enter the browse node and peruse the consignment node database of goods. It is understood that the participant may receive the image taken with a digital camera 12 of the goods at the participant terminal. The participant, upon finding for example the above-posted Frank Robinson care may decide to purchase the card. The participant may present electronic payment to the consignment node by entering a credit card number and expiration date or other forms of electronic payment. It is understood that a secure and/or encrypted means may be established between a participant's interface application and a consignment node to transfer sensitive or theft prone information. Moreover, a participant may establish an account with his Local consignment node to be debited and credited with the funds used and generated with his transactions.

The consignment node may, for example, clear the transaction by charging the participant's charge card account and crediting the consignment node store account by well-known credit card clearing techniques. After the consignment node has cleared the transaction the system electronically transfers

ownership of the Frank Robinson card to the participant. The participant may then be presented with the choice of directing the delivery of the Frank Robinson card to a desired location or may choose to post a new reserve or offer price for the card and direct the card to remain in the possession of the consignment node user. Thus, the consignment node allows a participant to speculate on the price of the Frank Robinson card and establishes an electronic market for the Frank Robinson card. It is understood that the consignment node may have many Frank Robinson cards available, thus by the interaction of collectors electronically buying and selling the collectibles it will establish a market price for a Frank Robinson card or any other good. For each transaction, the consignment node user extracts the small consignment fee, e.g., 6% of the sales, price, thus the consignment node user directly benefits from operating a reputable consignment node. If the participant elects to take delivery of the purchased goods then the consignment node may track the delivery and ownership of this good to this particular participant in a data record. This data record may be useful to speed the posting of the good, should the participant later decide to re-post and sell the good, and it also creates a valuable database of records to track the possession and ownership of a collectable. This feature may be useful in the agent mode, e.g., tracking down very hard to find items, discussed more fully below.

The Auction

For a rare good, a good in a volatile market, or a good's initial posting the consignment node user or participant may wish to auction the good, with or without reserve, to the highest bidder. In this mode, the good may be posted on the consignment node by the means described above but the data record representing the goad is identified as waiting for an auction date and may not be purchased on the electronic market. Alternatively, an item may be in the electronic market of the consignment node with a high reserve price that may be

lowered in the auction or liquidation mode. Here the consignment node user or the good's participant owner may enter a protected data field a confidential reserve price for the auction mode. The consignment node user arranges by invoking the appropriate consignment node program a time and date for an electronic auction. The consignment node user or good's participant owner may establish, in a data record that represents the good, a desire for the item to be auctioned. For example, a pawnshop operator of a consignment node may have several Rolex watches he wishes to auction with reserve this Saturday night at 1:00 p.m. The consignment node user, here a pawnshop, identifies on the Rolex watch records the auction date and the confidential reserve price. The consignment node system may "advertise" auction dates, items and auction terms in the consignment node log on welcome message discussed below. Moreover, a good that is identified as awaiting an auction date may be viewed before auction in the consignment node browse mode by a perspective auction participant.

At the auction date, perspective participants log onto the consignment node auction mode locally or through the consignment node network and await the first good to be auctioned. It is understood that in the best mode of the invention the participant will have a data terminal with a digital to analog converter such as a "sound blaster" and speaker, the digital to analog capability may be used in the auction mode to bring the aural excitement of an auction, e.g., the call of the heckler, the caller and bidders, home to the auction participant. This is discussed in more detail below.

The consignment node takes the first item to be auctioned and posts the image of the good and the good's text record to the participants. The consignment node then posts the opening bid. It is understood that the bid postings may be in a protocol that invokes the generation of an auctioneer's voice at the participant terminals. The participants may then re-

spond with a higher bid. The consignment node mode scans electronically the participants for bids and accepts the highest bid. If bids are tied the consignment node may take the first highest bid by the participants log on order. A particular bidding participant receives a special acknowledgment from the consignment node that her bid was accepted. The consignment node then posts the higher bid to all the electronic auction participants. The consignment node repeats this process until no higher bid is received for a predetermined amount of time and closes the auctioning of that particular good. The consignment node then checks whether the highest bid received is greater than the reserve price, if appropriate. The consignment node may then post sold! and the sell price to all participant terminals and proceed to post the next item for auction. Again a successful purchaser may elect to direct delivery of the good or post the good on the electronic market at a new participant determined offer price.

It is understood that the terms of the auction sale are posted and agreed to by the participants before allowing a participant to bid on goods in compliance with local requirements and statutes. It is also understood that a participant may make electronic payment for the goods or establish a line of credit or collect on delivery terms within a particular consignment node user's discretion. This may be established by a relationship between a local consignment node user and a local participant at the local consignment user's discretion.

It should be noted that a consignment node user may sell virtual advertising space or a central master node e.g., the franchiser, may coordinate the sale of advertising space on a pool of consignment nodes to reach target market participants. For example, if a participant has purchased or speculated in antique pens, and advertisers of an antique pen specially consignment node wishes to target market individuals on the network who have purchased collectable pens in the past. A central coordinated master node may sell

advertising to an advertiser for the log on message or e-mail targeted participants and users. Thus, the network of consignment nodes can establish a market for target marketing r blanketed advertising of goods and services sold locally or on a network level by a central node.

The Agent

The Agent Mode allows a consignment node participate to search a plurality of consignment nodes and purchase records for a used good. A participant may log onto his local consignment node to shop. This participant, for example may be interested in purchasing a particular used coin for her collection. The participant may invoke a consignment nod Agent to search the network of consignment nodes for this coin. The participant fills in the search parameters for this coin, for example, a 1872 U.S. penny from the Denver Min The consignment node Agent task handler verifies the Agent form is sufficiently filled out and accepts the task. The Agent checks a list of other consignment nodes network address (kept by the local consignment node database and general) an Agent communication message to each consignment node on the list and begins to establish communications to the other consignment nodes. An Agent message between consignment nodes begins by coordinating or reconciling the database on each consignment node of the locations and/or address of other consignment nodes. If a consignment nod has a different list of consignment nodes in its database will pass the node update information to the other consign men t node. The consignment node originating the Agent that will generate a new Agent task to accommodate the information concerning the new consignment node. Once the consignment node database of consignment nodes reconciled, the Agent will seareh the consignment nod database for the goods requested. The Agent will report back whether the search of the local market database was successful and how many good that matches the Agent search request it found. An Agent may

also search the consignment node database of past transactions to identify an owner of particular good. The Agent may then report that John Doe (Main Street, U.S.A. was the last known purchaser of a 187 U.S. penny from the Denver Mint at this node. It is understood that differing levels of privacy are available to consignment node purchasers, so as only allowing the local consignment node user to view past purchaser information and/or provide the Agent with an option of contacting that consignment user so he may contact the prior purchase thus, protecting privacy while allowing bona fide offers reach the prior purchaser in confidence.

Once some of the Agents start reporting back to the Agent originating consignment node, the originating consigner node may report the results to the consignment node participant of the Agents results. Such results may give the total number of matching items found thus providing the local participant/collector an indication of the depth of this market. It is understood that a local consignment node us (may charge participants for Agent requests.

Computer Implementation

In the preferred embodiment of the present invention consignment node may use a multitasking operating system such as UNIX, OS/2, NT or VMS. However, a Microsoft DOS or Windows implementation is within the scope of the present invention. The consignment node may be networked via TCP/IP and the internet or a private TCP/IP network X.25 private or public network or service providers network of ISDN, ATM and the like. It is understood, that a consignment node may support a plurality of protocols simultaneously. Moreover, it is understood that the participant interface application program may execute on a wide variety of platforms such as PC's, MAC's, Power PC's workstations, cable set-top boxes, video game hardware an the like and are within the scope of the present invention The posting terminal embodiment is discussed in data below.

BRIEF DESCRIPTION OF THE DRAWINGS

FIG. 1 shows the consignment node of the present invention may have a computer 10, a data storage device 22, a tape drive 24, a digital camera 12, a bar code scanner 14, a display 16, a keyboard 18, a laser printer 20, and a network connection 26. A participant user terminal is shown at 28.

FIG. 2 shows a schematic block diagram showing the logic flow of a user log in at a consignment node.

FIG. 3 is a schematic diagram showing the logical flow of the consignment node auction process.

FM. 4 is a schematic diagram showing the logical flow of the consignment node market or browse mode.

FIG. 5 is a schematic block diagram showing the logical flow for posting a new used good on the consignment node.

FIG. 6 is a schematic diagram of a subroutine that may be used to post auction bids.

FIG. 7 is a schematic diagram of a subroutine that may be used by the consignment node auction process to receive participant auction bids.

FIG. 8 is a schematic diagram showing the logical flow for a subroutine that may be used to transfer ownership of an item.

FIG. 9 is a schematic diagram showing the logical flow for a consignment node in-store sale of a good.

FIG. 10 is a schematic diagram showing the logical flow of post-processing and analyzing consignment node sales.

FIG. 11 is a schematic diagram showing the logical flow of the consignment node Agent handler subroutine.

FIG. 12 is a block diagram of the posting terminal to market maker computer connections.

FIG. 13 is a diagram showing a user interface on a posting terminal or consignment node.

DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENTS

It is understood that the get session identification procedure 100 is a routine that monitors the communication ports and virtual communication ports residing on a protocol stack. The consignment node may use, for example, a X25 interface card, available from Eicon Corporation or Frontier Corporation to execute an X.25 protocol stack in a PC workstation. The get session identification 100 program may monitor the X.25 protocol for incoming calls. If the program identifies an incoming call it may answer the call by transmitting the appropriate X.25 packet to the network on the appropriate virtual channel. It is understood that other protocols, such as TCP/IP, DECNET, SNA and ATM are within the scope of the present invention and that multiple protocol stacks may simultaneously execute in a consignment node. Therefore, the get session identification program 100 may have multiple instances to connect and monitor the various protocols. After the get session identification 100 has appropriately answered an incoming call to the consignment node, it may invoke the display welcome message and menu routine 102.

It is understood that the get session identification 100 provides sufficient information to the display welcome message and menu 102 to allow the display welcome message and menu 102 to connect to the appropriate session or virtual channel. At this juncture, if the participant is using an approved interface program, the interface program will send a predetermined code to indicate its version and other characteristics of its display driver. If a participant is logging in from a TN terminal or other terminal the display welcome message and menu 102 may detect this information and send the appropriate TTY welcome message. This procedure may also be used to identify features and languages supported on

various internet world wide wet browsers. It is understood that the welcome message viewed by the consignment node user as virtual advertising space that may be sold by the consignment node user of coordinated with the master control node (discussed in detail below). The participant may respond to the display welcome message and menu 102 program by giving an appropriate log on response 104. The get log on response 104 may verify and grant a level of access privileges to the participant. It is understood that the consignment node user may require the get log in response 104 to retrieve a credit card number, pit number, user ID and the like, to grant access privileges. If 2 participant is using a TTY terminal those sessions may be shunted to the download interface program (DIP) 106 routine to receive an appropriate interface program from the consignment node. The DIP 106 may present a list of choices as to what version interface program should be downloaded, such as DOS, Windows, UNIX, MAC platforms and what transfer program is desired such as Kermit Xmodem, FTP and the like. A participant with a participant interface program may also elect to receive a new interface program from the DIP 106. It is understood that an older, no longer supported interface program participant may be shunted to the DIP 106 to receive a new interface program

A participant with a supported interface program may select the auction 108, market 110 or agent handler 112 sections of the consignment node if a participant selects auction 108 the participant may be presented with a menu of auction selections such as auctions in session, future auction times, dates, locations and topics, and auction preview. If a participant selects auctions in session the participants' session is passed to the appropriate auction handler, as discussed below. If a participant selects future auctions the participant will be given a list of future auction times, dates terms, locations and topics of auctions on this and other consignment nodes it is understood that these display represent a virtual advertising opportunity for the consignment node user and the advertising

space may be sold by the consignment node user or by the master control node. If the participant selects the auction preview, the auction process 108 passes the participant session to the market session UC with data that indicates an auction preview desired by the user.

If the participant selects the market 110 choice the participant is given a menu of markets that the participants may browse, discussed further below. If the participant selects the agent handler 112 the participant may be provided with ac electronic form to create a search for a good. The participant may then execute this Agent's search request to search the network of consignment nodes databases to look for the desired goods. The Agent is discussed more fully below. The Agent Handler 112 also receives incoming calls from other agents to process the external agents search request on the consignment node. The participant interface and consignment node participant functions are discussed in detail below. It is understood that the agent may also function between virtual markets on a market maker computer and with the transaction archive database discussed below. The discussion now turns to the operation of the consignment node by the user.

FIG. 3 shows a logical flow diagram of the steps the consignment node may use to create a database record of a good for sale or for auction.

The consignment node user may invoke the consignment node program to enter the posting 200 mode to create a data-record for the good. The posting 200 mode initializes 204 the consignment node to receive information on a new good. The initialization 204 step displays a data record with data fields on the consignment node terminal for the user to fill in information on the good. The initialization step 204 also initializes the consignment node peripheral devices such as the digital camera 12 and the printer 20. The consignment node user then "photographs" or digitizes the image of the good from one or more perspectives as well known to the digital camera

arts. The consignment node receives the digitized images) at receive image 206 step. The consignment node program then prompts the consignment node user for information on the good 208. The consignment node receives information 210 that the consignment node user inputs to the data record displayed at step 208. The consignment node program verifies 212 that the necessary information, such as owners name, reserve price, market or auction designation is in the data record. The verify step 212 will reject the record and return the consignment node user data entry mode 210 if the record does not have the minimum information. If the record is verified 212 as complete enough to commit to the consignment node database, a data record is created 214 and linked into the consignment node database. The consignment node program then generates and prints a bar code 216 that indicated the data record. The bar code system is used by the consignment node to maintain an accurate inventory and is a hook for local sales (discussed below). The posting routine may then exit 218 and return from the posting program. By repeating the posting routine of FIG. 3 the consignment node user may build a database of goods for the consignment node market, auction and/or agent searches.

FIG. 4 shows the logical block flow diagram of the processes the consignment node may take to execute an auction. It is understood that the consignment node user may manually invoke the auction process, or may schedule the consignment node to execute the auction process. The auction process begins by initializing 250 the data structures, records, queues and the hire to conduct the auction process. The connection between the auction process and auction participants is discussed below. The auction process gets the first item to be auctioned 252 from the database of goods to be auctioned 254. The consignment node then calculates the opening bid 256 by a predetermined formula such as 50% of the reserve or general solicitation of an opening bid is posted to the auction participants 258. The consignment node auction mode

then scans the participants for a higher bids 262. If a higher bid is found the new bid is posted 264. It is understood that the steps of checking for bids 260 determines if the bid is higher 262 and posting the new higher bid 264 is repeated until no higher bids are received. After the typical auction closing of going once. twice . . . three times the auction is closed 266. The consignment node auction program then compares the highest bid received with the good's reserve price 268 to determine whether to transact the sale. If the highest bid is greater than the reserve price the consignment node auction process posts sold! for xxx amount to the auction participants and calls the transfer ownership sub-routine 270, discussed further below, and transfers the ownership of the good. If the highest bid is less than the reserve price the consignment node auction process announces no sale! 272 to the auction participants. The auction process then proceeds 274 to get the next good to be auctioned 278. The consignment node auction process is then repeated until all the goods to be auctioned have been run through 278. The consignment node auction may then close and terminate the participant sessions 280. It is understood that the trasfer ownership 270 sub-routine may require time to clear the tranaction and, therefore, may be best implement as a spawned child process to the auction process. This will keep the consignment node auction executing at an exciting and fast pace for the participants. The consignment node auction process itself may execute in several instances to provide simultaneous auctions on a consignment node. Thus a consignment node may conduct several simultaneous auctions on several virtual runways. It is understood that in the auction mode the consignment node and the participant interface software may communicate using a protocol that allows the consignment node auction driver to "point to" locations stored in the participant interface software, to cause the participant interface software to generate the sound of a auctioneers voice on the sound blaster, or equivalent board. Thus, the present in-

vention uses pre-stored sound samples of different auction prices and auctioneer "string" along aural calls inside the participant interface software, and allows the generation of said pm-stored sound bites to be invoked by the consignment node driver through the said special protocol. This method greatly reduces the bandwidth necessary for a consignment node to support the generation of exciting auctioneers calls at a plurality of participant terminals. It is understood that the generation of an audio bit stream from the consignment node to the participant terminals is also with the scope of the present invention.

FIG. 5 shows the logical flow for the post bid subroutine 300. The post bid sub-routine may be invoked from several consignment node processes, those specifically described thus Ear are the post opening bid 258 and posting bid 264 logical processes. The post bid 300 sub-routine is used to communicate between a consignment node and multiple participants. The post bid 300 sub-routine gets participant session identifications 302 from a data record or data structure that contains a list of session identifications of participants who have logged onto the auction sessions. The next step sends the bid passed to the post bid 300 subroutine to each participant session identified in the data structure 306. Bids are posted to each participant through an appropriate driver 308. The driver may be identified for each particular user session. For example, a PC user logged into the consignment node via an X.25 virtual channel may require a host PAD driver in the consignment node to communicate asynchronously to the PC terminal interface application. A network user may require a TCP/IP driver to connect between the consignment node and the participant networked terminal After communicating the bid to participants through the appropriate device driver 308, the post bid sub-routine may exit and return 310 to the calling routine.

FIG. 6 shows the consignment node subroutine to check participant sessions for bids during the auction mode. Check for bids 350 maybe a subroutine called by the auction program to scan for bids. It is understood that when a participant logs into the consignment node and selects the auction mode, (see FIG. 2), the participant's session identification is passed to a data structure. The data structure maybe used by the check for bids 350 sub-routine to correctly identify participants at a particular virtual auction. As noted above, the consignment node may support multiple simultaneous auctions, therefore, may require multiple instances of the aforesaid data structure. The check for bids sub-routine 350 opens or connects to the appropriate data structure storing or holding participant session identifications who are participating in the check for bids calling auction program instance at the get session identification step 352. The buffers associated with each session is scanned for an input 354. If a participant has input an "exit" command or symbol 356 the routine removes that participant's session identification from the auction identifying data structure and allows the participant to exit 362 the auction. The participant's session identification may be returned to a data structure that allows the participant to return to the consignment nodes main menu, see FIG. 2, or terminate the participant session. The subroutine then compares the bids and takes the highest bid 358. If bids are tied for the highest bid the sub-routine may use the first received bid and reject the others 358. The sub-routine then notifies the participant session who bad the highest bid 360. It is understood that the take the highest bid step 358 and notify bidder step 360 are aware of the current bid price for a good and will not allow a lower bid to be accepted. It is understood that the participant session buffers are flushed after they are scanned to remove old or latent bids. The check for bids sub-routine then returns to its calling routine.

FIG. 7 shows the transfer ownership routine 400 that may be used to transfer the ownership of goods and collectibles in

the consignment node. The transfer ownership subroutine may be called from several consignment node modes and processes to effect the transfer of legal ownership. The first step in the transfer ownership sub-routine 400 may be to verify a participant purchaser information 402. It is understood that the consignment node may use a variety of well known authenticating procedures to verify a participant, such verification techniques include personal identification numbers (PINS), passwords, call back, and a plethora of encryption techniques and personal information identification means to provide a reliable verification technique. It is understood that a consignment node user may have established a credit or deposit account for the participant from past sales or the transfer of funds and the verify step 402 may connect the participant to the account. The clear charge 404 step is used to clear the participant consignment node transaction. It is understood that this may be via an external credit card clearing network, a connection to a credit account, or though one of the many proposed electronic fund transfer schemes such as debit cards, e-money, and clearinghouses. After the transaction clears the charge 404, the consignment node credits the consignment node users commission account 406 to extract the consignment node transaction fee. The consignment node then transfers legal ownership 408 of the good by changing the ownership entry in the data record in the consignment node of the good. The consignment node may then print a record of the transaction 410. It is understood that step 410 may also be used to keep a log on the consignment node storage or tape drive. The consignment node then removes the good from sale or auction status 412. It is understood that the data record representing the good is "locked" during the transfer ownership sub-routine to prevent collisions of actions and transfers of the good. If the participant has elected to ship goods then the consignment node will print a shipping label 404 for the consignment node user to attach to the good for shipment. The transfer ownership routine may then exit 416.

If the participant has elected to re-post the good or collectable the participant may specify a new reserve or offer price for the good or collectable. It is understood that the purchasing participant may elect to leave the good or collectable at the consignment node and post a new offer or reserve price and may identify that the good is on the market, e.g. may be bought and sold at any time, or that the good is awaiting an auction date. Moreover, the participant may elect to have the good viewable on the market or "invisible" to the market while awaiting an auction date 422. It is understood that the participant may elect to leave the good at the purchased consignment node and electronically transfer the offering of a good to another consignment node. It is understood that consignment node users may run a "trusted" network between consignment nodes to provide the trust between merchants, that the goods exists and that the network between the consignment nodes to provide for electronic presentment of a good is a secure network connection. This allows collectable goods to be concentrated for a single electronic auction or virtual collectable market on a market maker consignment node without incurring the costs of shipping the goods to a central location to bring the good to the market maker consignment node. It is understood that the trusted posting of goods on a market maker node is a value added feature a small town consignment node user can provide to his immediate collector community. It is understood that the master central node may also serve as a legal consignment node franchising authority to provide enforcement of integrity, security and quality control for the consignment node network.

FIG. 8 shows the consignment node routine that maybe used to establish a virtual market. The market 450 may be selected from the consignment node main menu, see FIG. 2, to allow a participant to browse the consignment node goods database. The market 450 will display to the participant market categories 452, categories may be defined by the consignment node user to reflect the specialization of his con-

signment node and the specialized markets or miscellaneous markets for his goods. The consignment node then gets the participants response 454 to the market choices. The consignment node may then display market sub-categories 456. Again, the consignment node user may specify market sub-categories to reflect the specialization of the consignment node. The consignment node may then display items 458 and get the participant or market user response 460 to the displayed choices. It is understood that the participant may browse or scroll through the goods on the market 462,458,460 until the participant responds with a desire to exit the market 463. If the response is a desire to transfer to the market root directory 464 then the consignment node will return the participant to the market subcategories 456. If the participant responded with a desire to terminate the session 466 the consignment node will exit the market and terminate the participant's session. it is understood that during the browse loop 458,460,462 a participant may elect to buy or make an offer on a good and may invoke the transfer ownership routine, see FIG. 7, to effect the transfer of a good's ownership. It is also understood that a participant may make an offer on a good below the asking (or offered) price. Such a proposed offer may be stored by the consignment node and used to notify the good owner. The good owner way then accept the counter offer or reject. it is understood that a participant counter-offer may be made subject to an acceptance before date. It is also understood that a participant may establish a "buy at" or "sell at" price/quantity for any good in the market.

FIG. 9 shows a logical flow diagram of the process that may be use to transact the transfer of ownership of goods on a consignment node at the store where a consignment node may be located. The consignment node user invokes the store sale sub-routine 500 from a consignment node user terminal, see FIG. 1. The consignment node user may use the bar code scanner to scan the bar code of the good for sale 502. It is

understood that the consignment node user may manually recall or search the consignment node database for the data record of the good or may let the consignment node software use the bar code to automatically retrieve the record 504. The data record is then scanned to retrieve price and sale information on the good 506. It is important to note that a good, while on display at a consignment node user's shop may have transferred ownership and changed price via network participants. The consignment node then displays this information 508 at the consignment node user terminal. The store customer may then elect to purchase the good. The consignment node may process a store customer purchase request by calling the appropriate sub-routine to transfer ownership, see FIG. 7, of the good.

FIG. 10 shows a logical process diagram for the central node to collect and process data concerning transactions on a plurality of consignment nodes and provide value added feed back to consignment node users on market positions and is trends. Data processing 550 may be executed on a consignment node or the central node to extract transaction data from a consignment node. It is understood that the tape drive, or storage device may be used to log network transactions on the posting, auctioning, buying and selling of goods and collectibles on a consignment node. This information may be collected by the central node over the consignment node network. The central node may then plot sales, sale date, price over time and the like to create graphs of market performance 554. It is understood that the data correlation and processing steps 554,556 may be customized to provide a particular consignment node user with useful market information. The central node may also provide hard copies or electronically transfer the information to the consignment node users. It is understood that this may be a value added feature of a service that may be provided by a franchiser. It is understood that the central node may log into a consignment node, with well known remote processing and data transfer techniques such as

the logon and FTP UNIX utilities to make changes to the aforesaid virtual advertising space on a consignment node.

FIG. 11 shows the agent handler the consignment node may use to establish agent-to-agent and consignment node—to—consignment node connections to process participant agent requests. The agent handler 600 may be entered by a predetermined series of codes and verification procedures to verify a request for an agent connection to the consignment node is from a bona fide agent and a bona fide consignment node. Once this is verified the agent handler may establish a session for the requesting agent 602. The requesting agent may then transfer its agents request to the on consignment node 604 and the consignment node may then check its local database 606 to try to match the agents search request. The agent handler may then respond to the agents request 608 and terminate the agent session 610.

A second embodiment to the present invention, shown in FIG. 12, uses a low cost portable "posting" terminal to allow the virtual presentment of goods to market. The posting terminal has a digital camera, a bar code printer, a bar code scanner, a modem and posting terminal software. The posting terminal works in conjunction with a market maker computer. The market maker computer has a database of goods for sale, a posting/de-posting communication handler, a database to world wide web (www) mapping module, a www server, a transaction process, a posting terminal communication manager, a sold database, a shipping database and an account database and has much of the functionality of the previously described consignment node.

The posting terminal acid market maker computer functional block diagram is shown in FIG. 12. The posting terminal has a camera interface 701, and image processing module 702, a record maker module 704, a storage unit 710, for storing images and records that have not been posted, post module 712, a select records module 714, a post request

module 716, a print bar code module 718, a get mail module 720, a storage unit for holding posted records and return codes 722, a de-post module 724, a get code module 72f and de-post request module 728, a bar code scanner interface 730, another instance of the get mail module 720, a mail sales routine 738, a print shipping label routine 740, a notify store routine 740, and a check sales module 734. The posting terminal 700 contacts a market maker computer 800 to check sales, to post goods, to de-post goods and to receive mail. The posting terminal 700 is easier to administrate than a consignment node because it behaves like a retail point of-sale terminal to manage goods that have been posted an are locally sold. The bar code labeling and scanning routine and methods make it easy for the posting terminal user to maintain an accurate account of what goods have bee posted, de-posted, sold and/or shipped. The posting terming may use an MS-DOS or MS-WINDOWS operating system that is much easier for a small store owner to operate an administer than a complex multi-user system like UNIX or WINDOWS NT.

The posting terminal 700 functionality begins with a use taking a digital picture with the posting terminal digits camera and connecting the digital camera to the camera interface module 701. The user selects an icon on a graphic user interface generated by the posting terminal software t pull the digital pictures from the digital camera. It is understood that other input devices such as scanners and the like may be use in place of the digital camera. The image process module 702 may convert the digital picture to a compressed data format such, as JPEG or MPEG, more suitable for communication of the image across a data link. It is understood that the image may keep it's full resolution for posting. The posting terminal then invokes the record maker routine 704. The record maker routine 704 may display the image or allow the user to select an image from storage unit 710. The record maker may display on a posting terminal display a data entry record with pre-defined text fields, number fields, "buttons," knobs and

other graphical user interface objects to allow a user to enter data to complete a posting record.

FIG. 13 shows an example of a graphical user interface that may be presented to a posting terminal 700 user. The graphical user interface for the posting terminal 700 may include an image of the item represented by the record 920 a description of the item 922, and 924, the "push button" commands to receive pictures from the digital camera 926 to post a record 928, to clear a local sale 930, to de-post a record 932, to access files of records 934, to view and/or receive and stud mail 938, a database category field 940 with a pull down selection bar 942, a database subcategory 944 with a pull down selection bar 946, a code field 948, a posting date field 950, a store identification 951, a market designator field 954, a description field 956, a reserve or wholesale price field 958, and identifier 960, a retail or full price field 962 and identifier 964. The category 940 and sub-category 944 data fields are restricted to selections the can be made by the respective pull down bars 942 and 941 This aids the posting terminal operator in selecting the correct market for the good when creating a record an assures that all records, can properly link into a market computer 900 market database. A file may be stored at posting terminal 700 that corresponds to database structure at the market maker computer 800. Having the database structure in a file at posting terminal 700 may allow the posting terminal to receive updates by remote file transfer techniques, such as the KERMIT, FTP, xmodem and ymodem protocols. It is understood that certain selections from he market category 940 and subcategory fields may be "greyed" or that is blocked from selection by a posting terminal 700 user to enforce a franchise and/or license grant hat only allows posting in a certain field. This may allow a franchising scheme that restricts a franchisee to a field of use and/or category of goods. The code field 948 displays the bar code data in text form that the market maker computer 900 tends to the posting terminal 700 when a record is successfully posted.

Therefore, the code field 948 can serve as a quick visual confirmation to the posting terminal user that the displayed record has been posted. The market field 952 may also be a restricted selection field accessible by pull down selection bar 954. Fields selectable by the market field 952 may include auction, on-sale, hold and the like to give additional directionality to the record posting. The price 964 and reserve price fields 958 may be used to structure the two-tiered market of dealer-to-dealer and retail markets. The reserve price identifier 960 and reserve price field 958 may be hidden from view to retail participants. A dealer may be provided with special log on identifications and passwords to view the reserve price 958 and reserve price indicator 960. This feature encourages franchisees to use the electronic market for collectable goods dealer participant interface to generate local sales.

The posting terminal 700 user enters descriptions such as the name of the item, the sale price of the item, and a brief description of the item and the like to compose a record. It is understood that a posting terminal user may enter a retail price and a wholesale price. The retail price may then be displayed to participants 900. Other retail participants 902 may receive the wholesale price. It is understood that this two-tiered pricing scheme may be used to network retail store owners to provide additional incentives for the retail participants to use the network to locate goods and generate sales at the retail point of sale. For example, a retailer may charge the retail price for goods to store customers, while obtaining the benefits, e.g. the profit margin of wholesale or discounted pricing for goods. It is understood that the restricted fields are coordinated with the structure of the For-Sale database 814 to guide a posting terminal 700 user in the proper selection of a market category and subcategory of the posting of a good. Categories may include jewelry, rugs and tapestry, tools, quilts, furniture, art deco, books, pens, coins, stamps and costumes and clothing. Subcategories may include painting

and drawings, sculpture, vintage clothing, costumes, shoes, bags, hats, wedding gowns, furs, rug types and the like to structure the database. The user may also select from a list box what category and sub-category from restricted fields in which to post a good. Referring back to FIG. 12, the user may store a composed record on the storage device 710. The record maker routine may also contain a command button 706 to immediately post the record 708. It is understood that the user may designate a time at which the posting terminal 700 may automatically contact the market Maker computer 800 and post the selected goods. The post request 716 module may allow a user to select records from storage unit 710 or as in the case where the user selected the immediate post command 708, the post module 712 may accept a record as an input. The ability of the posting terminal 700 to store and select records for posting asynchronously from when a record is created allows a user to compose records when the posting terminal is isolated from communication with a market maker computer 800. The post module 712 may invoke the post request module 716 to post the designated records on the market and make a virtual presentment of a good. Rules and procedures may be imposed on the posting terminal 700 user throng) licensing and franchise agreements. Such rules may include the requirement that all goods posted must be in the physical and legal possession of the posting terminal franchisee or licensee, that legal possession of a good may be obtained by lawful ownership or through a franchise approved bailment or consignment contract. It is understood that these rules and legal frame work may be imposed to allow the posted record to convey a legal title to a good such that the ownership designated in the record grants lawful ownership to the good designated by the record. The post request module 716 may use a communication package and protocols to transfer fiat records to the market maker computer 800. Communication libraries are packaged and are commercially available front WCSC 2740 S. Dairy Ashfor.

Suite 188, Houston Tex 77077 and from Marshalls of the Computing, Inc. at P.O. Box 4543 Huntsville, Ala. 35815. The communication protocols such as FTP and KERMIT may be enhanced by using known encryption and authentication techniques to provide an ultra-secure posting interface. The posting record may also include a header that identifies a store identification, user identification, passwords and the like to allow the market maker computer 800 to verify authenticity, approve autho rization and track usage of the posting terminal 700 by particular posting terminal 700 and posting terminal user.

The market maker computer 800 may verify and accept a record and generate and send a unique bar code number for each record. The bar code number may contain a code that identifies a posting terminal 700. The posting terminal accepts the bar code and places the code in the appropriate record. The unique code generated for each successfully posted record may serve as confirmation that a good has been successfully posted. The record may then be stored on storage unit 722 as a confirmed posted record. When the posting terminals' post request module 716 is finished, the posting terminal 700 or the market maker computer 800 may invoke a mail update routine 720 to pass mail from the market maker computer 800 to the posting terminal 700. Mail topics may include sales information 734, network news 736, and notification of upcoming events 738. The deposit module 724 may use the bar code scanner 730 to receive a posted collectible's identification code. The de-post module 724 may call the de-post request routine 711 to establish communications between the posting terminal 700 and the market maker computer 800. The de-pose request module 728 sends the item or collectible bar code to the post/de-post handler 802. The post/de-post handler 807 may remove the collectible identified by the bar code Iron the for-sale database 814, if the de-posting terminal identification has legal title to the identified collectible as indicated in a for-sale record, the market maker

computer 804 may send a de-post confirm code to the posting terminal 700, The posting terminal 700 may process the confirm signal by indicating that the de-posting procedures was performed. Its legal title to the posted collectible good does not belong to the de-posting requesting entity, e.g., the de-posting terminal 700 then indicated by the posting terminal identification, the market maker computer 800 may report the collectible good status, e.g., sold!, to the de-post request module 728. The may indicate to the posting terminal user that a bailee relationship now exists between the store and the new legal owner. It is understood that this bailee relationship may be contractually created and enforced through the franchise contract between the posting terminal user and the franchise granting authority. It is also understood that the bailee agreement may be for a predetermined time and/or require the posting terminal user to hold a good for a predetermined time and/or ship the good to a long term storage facility to ease the bailee burden of posting terminal users where a participant elects to hold legal ownership but keep the good available in the electronic market place for the long term. It is understood that a bond and/or insurance requirements may be required for the posting terminal user and/or the long term storage facility to provide assurance to a long term collectible investor that the risk of loss of the collectable good asset is maintained or at least hedged against loss. It is understood that a good may have sold and the new owner has elected to re-sell the good at a higher price. In this instance, the de-posting terminal will be advised that the good has been sold and advised of the new sales price. The posting terminal may then transact the local sale at the new price. After the de-post request module 728 is finished it may invoke or the market maker computer 800 may invoke the get mail routine 720 to send mail between the market maker computer 800 and the posting terminal 700. It is understood that through the procedures of generating a unique code for each posted good, checking a unique code that identifies each posting terminal

700 against the legal owner entry in a posted good on the market maker computer 800 the database of for-sale goods 814 will be extremely reliable and accurate and assure that a locally sold goods that have already been sold on the market maker computer 800 will not be inadvertently sold twice. The procedures, when used in conjunction with the rules and procedures imposed on the posting terminal user through a franchising or licensing legal framework assure that (1) when a record of a good is found on the market maker computer 800 by a participant 900 or another retailer 902, it is in fact for-sale and is in the physical and legal possession of a "trusted" franchise and (2) that when a bona fide purchase price is tendered by a participant 900 or another retailer 902 the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction. This frame work of trusted franchisee, high confidence and accurate market database, and the legal finality of transaction, where the legal transaction case clearing function is performed by the market maker computer, e.g., the participant credit card number or other payment means is only revealed and brokered by the market maker computer 800, is a massive step toward building confidence and trust between a small collectable merchant and participant with electronic transactions. These procedures may be used to give assurances and create trust to participants, who for example would like to buy and art deco collectable from a collectable shop in Russia but is very reluctant to send credit card information to an unknown Russian collectable shop for the obvious concerns of credit card fraud and/or fraud in the bona fides of the collectable good itself. Here, however, the franchising authority polices the franchisees to revoke the franchise if a fraud and/or misrepresentations of the bona fides of a collectable good is taking place by the posting terminal user and the assurance that credit card numbers are only revealed to the market maker computer 800 and not accessible to the, in this example, the Russian

collectable store. This allows the Russian collectible store to receive the business good will of the electronic collectible market place of the present invention to establish immediate trust with prospective electronic customers.

The market maker computer 800 may have mail module 801, a post/de-post handler module 802, a security module 804, database server 806, a database to www map module 808, a www page server 810, a transaction processor 812, a for-sale database 814, a sold database 816, a shipped database 820, and an account database 824. A www to database mapping 808 module is commercially available from Expertelligence, Inc., Santa Barbara, Calif. at (805) 962-2558. Such a mapping module may map a ODBC database such as Microsoft Access to a www page. The market maker computer 800 may serve four primary functions. The first function is the call handler for processing calls from a posting terminals 700. The second function is a database to www mapping function to present participants 900 and other retailers 902 with a means to access the market database. The third function is to provide a means to process transactions from participants by clearing a transaction and transferring legal title to a good. The fourth function is to provide a means for managing the notification of the sale of a good to posting terminals 700.

The market maker computer 800 may use an accounts 824 database to track payments due to posting terminal 700 users. The clear accounts 825 module may print checks due to posting terminal 700 users. It is understood that electronic funds transfer techniques may be used for clearing account balances 825 for posting terminal users. A modem bank 803 may be used to receive posting calls from posting terminals. It is understood that the modem bank may be replaced by a network connection to the interact. At this juncture it is believed that an off-line that is a modem bank, connection offers the best security for the posting of goods. However, it is under-

stood that a network connection, e.g. through the interact, is within the scope of the present invention.

A security module 804 may be used to provide identification and password security. It is understood that other security and authentication techniques may be used at security module 804. It is understood that database server 806 may be an ODBC server available from many commercial database providers. Much of the market maker computers 800 functionality is disclosed above in the consignment node functionality. The databases may be structured to indicate of for-sale 814 database and sold database 816, and auction database 817 and a shipped database 820. It is understood that records may move between the databases by book entry transaction. The transaction processor 812 may use RSA certificates and/or other well-known techniques to process secured transactions between the market maker computer 800 and participants 702 and 902. It is understood that the transaction processor 812 may interface with external payment systems 826. It is understood that participant accounts may be tracked at the market maker computer 800. Moreover, it is understood that account surpluses may be acquired by participants speculating in collectable goods may be invested in highly liquid and safe assets such as U.S. Treasury bills to provide and interest bearing accounting for positive cash balances. This provides an incentive, or at least a hedge against inflation, for a participant to keep funds within the collectible market place and to use these funds to speculate in the collectible market. By using funds available at the market maker computer 800 participants can reduce the transaction costs associated with credit cards and other transaction clearing means and optimize the participants' return on price movements in the buying and selling of collectable goods. It is within the scope of the present invention to allow access to the electronic collectable market through stock brokers, banks, and other transaction providers through these providers private transaction networks, e.g., those networks that use dial in telephone

lines to home computers and/or dedicated data lines. It is within the scope of the present invention to allow professional investment advisors to operate funds such as investment companies, mutual fund partnerships and the like, that use collectable goods as part of the funds assets. It is understood that the market "history" may be archived and provided to investment advisors and/or posting terminal users and/or participants on a CD-ROM or other mass storage medium to allow off-line analysis of trends in the collectable goods market. This will allow or create a new class of "learned" speculators in this unique, novel and non-obvious electronic market place and network of trusted franchisees in the collectable goods domain. It is also within the scope to the present invention to create the liquidity, volume and availability analysis to allow the creation of a secondary and derivative market for option and futures contracts and other speculative constructs to be created with the underlying assets as collectable goods in the electronic market place of the present invention.

Many variations of the present invention are possible once the present invention is known to those skilled in the arts and are within the spirit and scope of the present invention. Those skilled in the arts will be able to make many variations on the present invention once this invention is known to the arts.

Therefore, I claim:

1. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, a payment clearing means for processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for sale, a communications means for communicating with said system to accept said data re

cord of said good and a payment means for transferring funds to a user of said system, said system comprising:

a digital image means for creating a digital image of a good for sale;

a user interface for receiving textual information from a user;

a bar code scanner;

a bar code printer;

a storage device;

a communications means for communicating with the market; and

a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer, said storage device and said communications means, said computer adapted to receive said digital image of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communications means, store said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

2. The system of claim 1 wherein said textual description received from said user interface includes a sale price for said good for sale, wherein said computer adapted to transfer said data record further conveying a binding offer for sale of said good at said price from said computer to said market.

3. The system of claim 1 wherein said computer is further adapted to receive said bar code from said bar code scanner, said bar code identifying said tracking number of said good for sale on the market for goods, transmit said tracking number to said market for goods arid retrieve said data record identified by said tracking number, wherein said computer adapted to transmit said tracking number further conveys a withdraw of said binding offer for sale of said good at said price from said computer to said market.

4. The apparatus of claim 1 wherein said image input means is a digital camera.

5. The apparatus of claim 1 wherein said image input means is a digital scanner.

6. The apparatus of claim 1 wherein said communications means is a modem.

7. The apparatus of claim 1 wherein said communications means is via an internee.

8. A market apparatus for use with a posting terminal apparatus, said posting terminal apparatus having means for creating a digital image of a good for sale, means for creating a data record of said good for sale, a tracking number printer means, a tracking number scanner means and means for communicating to said market apparatus, said market apparatus comprising:

a communications means for communicating with the posting terminal apparatus;

a post/de-post communications handler operably connected to said communications means, said communications handler receiving a data record of a good for sale from the posting terminal apparatus, said communication handler detecting a predetermined posting terminal apparatus identification code from the posting terminal apparatus and verifying from said code that the posting terminal apparatus is an authorized user of said market apparatus;

a storage device operably connected to said post/de-post handler, said storage device adapted to receive and store said data record of a good for sale, said data record containing an image of said good for sale and a textual description of said good for sale;

a presentation mapping module operably connected to said storage device and a wide area communication network, said presentation mapping module providing via said wide area communication network an interface to said market apparatus for a participant, said presentation mapping module providing said participant with access to said data record textual description and said image of said good for sale;

a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment means from said participant, clear said purchase request and payment means and if said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good fur sale to reflect the new ownership of said good for sale by said participant; and

a notification means operably connected to said transaction processor said notification means notifying the posting terminal apparatus in response to said transaction processor transferring ownership of said good for sale denoting with a finality of transaction said new ownership of said good.

9. The market apparatus of claim 8 further comprising:

a security handler operatively connected between said post/de-post handler and said data storage device, said security handler providing means for authorizing, authenticating and securing said communications between said post/de-post handler and said data storage device.

10. The market apparatus of claim 8 wherein said data storage device is a relational database.

11. The market apparatus of claim 8 further comprising:

a world wide web server operably connected between said presentation mapping module and said wide area communications network, said world wide web server providing said participant with data entry fields in predetermined categories in which to request a search of said data storage device for a data record of a good for sale.

12. The market apparatus of claim 8 further comprising;

an accounts database operably connected to said transaction processor, said accounts database containing an account number to track the funds payable to said user of said posting terminal apparatus, where said funds payable is generated from transfer of said good to said participant of said market apparatus.

13. The market apparatus of claim 8 wherein said post/de-post handler generates a unique tracking number and sends said unique tracking number to the posting terminal apparatus in response to said post/de-post handler receiving said data record of said good for sale from the posting terminal apparatus.

14. The market apparatus of claim 8 wherein a relationship exists between said market apparatus and a user of the posting terminal apparatus, said relationship conferring on said act of receiving said data record of said good for sale a legally binding offer for sale of said good at a predetermined sale price of said good.

15. A market apparatus for use with a posting terminal apparatus, said posting terminal apparatus having a digital camera for creating a digital image of a good for sale, a record maker module for creating a data record of said good for sale, a tracking code printer, a tracking code scanner and a posting terminal communication interface for communicating with said market apparatus, said market apparatus comprising:

a communication interface for communicating with the posting terminal apparatus;

a post/de-post communications handler operably connected to communication interface, said communications handler receiving a data record of a good for sale from the posting terminal apparatus, said communication handler detecting a predetermined posting terminal apparatus identification code from the posting terminal apparatus and verifying from said identification code that the posting terminal apparatus is an authorized user of said market apparatus;

a storage device operably connected to said post/de-post handler, said storage device adapted to receive and store said data record of a good for sale, said data record containing an image of said good for sale and a textual description of said good for sale;

a presentation mapping module operably connected to said storage device and a wide area communication network, said presentation mapping module providing via said wide area communication network an interface to said market apparatus for a participant, said presentation mapping module providing said participant with access to said data record textual description and said image of said good for sale;

a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment from said participant, clear said purchase request and payment and if said payment clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant; and

a notification means operably connected to said transaction processor said notification means notifying the posting terminal apparatus in response to said transaction processor

transferring ownership of said good for sale denoting with a finality of transaction said new ownership of said good.

16. The market apparatus of claim 15 further comprising:

a security handler operatively connected between said post/de-post communications handler and said storage device, said security handler providing means for authorizing, authenticating and securing said communications between said post/de-post communications handler and said storage device.

17. The market apparatus of claim 15 wherein said storage device is a relational database.

18. The market apparatus of claim 15 further comprising:

a world wide web server operably connected between said presentation mapping module and said wide area communications network, said world wide web server providing said participant with data entry fields in predetermined categories in which to request a search of said storage device for a data record of a good for sale.

19. The market apparatus of claim 15 further comprising;

an accounts database operably connected to said transaction processor, said accounts database containing an account number to track the funds payable to said user of said posting terminal apparatus, where said funds payable is generated from transfer of said good to said participant of said market apparatus.

20. The market apparatus of claim 15 wherein said post/de-post communications handler generates a unique tracking code and sends said unique tracking code to the posting terminal apparatus in response to said post/de-post communications handler receiving said data record of said good for sale from the posting terminal apparatus.

21. The market apparatus of claim 15 wherein a relationship exists between said market apparatus and a user of the

posting terminal apparatus, said relationship conferring on said act of receiving said data record of said good for sale a legally binding offer for sale of said good at a predetermined sale price of said good.

22. The market apparatus of claim 15 wherein said notification means is via electronic mail.

23. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, access to a transaction processor for processing a purchase request from said purchaser, a database for storing and tracking said data record of said good for sale, a communication interface for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising:

a digital camera for creating a digital image of a good for sale;

a user interface for receiving textual information from a user,

a printer for printing said digital image of said good for sale and said textual information from said user, a storage device;

a communication interface for communicating with the market; and

a computer locally connected to said digital camera, said user interface, said storage device and said communication interface, said computer adapted to receive said digital image of said good for sale from said digital Camera, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said

data record to the market for goods via said communication interface, receive a tracking code fo[r] sale good for sale and store said tracking code in said data record on said storage device.

24. The system of claim 23 wherein said textual description received from said user interface includes a sale price for said good for sale, wherein said computer adapted to transfer said data record further conveys a binding offer for sale of said good at said price from said computer to said market.

25. The system of claim 23 wherein said computer is further adapted to receive a bar code from a bar code scanner, said bar code identifying said tracking code of said good for sale on the market for goods, transmit said tracking code to said market for goods and retrieve said data record identified by said tracking code, wherein said computer adapted to transmit said tracking code further conveys a withdraw of said good from said market.

26. An electronic market for use with a posting terminal apparatus, said posting terminal apparatus having a digital imaging device for creating a digital image of a good for sale, a computer interface for creating a data record of said good for sale and a communication interface for communicating with said electronic market, said electronic market comprising:

a communication interface for communicating with the posting terminal apparatus;

a posting communications handler operably connected to said communication interface, said communications handler receiving inputs for a data record of a good for sale from the posting terminal apparatus, said communications handler detecting a predetermined posting terminal identification code from the posting terminal apparatus and verifying from said code that the posting terminal apparatus is an authorized user of said electronic market;

a storage device operably connected to said posting communications handler, said storage device adapted to receive and store and said data record of said good for sale, said data record indexing an image of said good for sale, a textual description of said good for sale and a code for said good for sale;

a presentation mapping module operably connected to said storage device and a wide area communication network, said presentation mapping module providing via said wide area communication network an interface to said electronic market for a participant, said presentation mapping module providing said participant with access to said data record textual description and said image of said good for sale;

a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and electronic payment information from said participant, transfer said purchase request to said posting terminal, and verify electronic payment information from said participant and if said electronic payment verifies then notify the owner of said good for sale by modifying a data record indexed to said data record for said good for sale to reflect said purchase request o. said good for sale by said participant; and

a notification module operably connected to said transaction processor, said notification module providing notification to the posting terminal apparatus in response to said transaction processor processing said purchase request and verifying said electronic payment information.

27. The electronic market of claim 26 wherein said market is further adapted to delay payment of said electronic payment for said good for sale from a first owner to a second owner for a predetermined interval.

28. The electronic market of claim 26 wherein said market is further adapted to delay payment of said electronic pay-

ment for said good of sale from a first owner to a second owner until a predetermined signal is received.

29. The electronic market of claim 27 wherein said notification module is an electronic mail system.

* * * * *

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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NOTICE

The following documents have been omitted in the printing of this Joint Appendix. They may be found in the Petitioners' Appendix to the 05-130 Petition For A Writ Of Certiorari at the following pages.

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MercExchange, L.L.C. v. *eBay, Inc.*, 275 F. Supp. 2d 695 (E.D. Va. 2003) 29a-74a

From: Kumamoto, Andrew [akumamoto@cooley.com]
Sent: Monday, June 26, 2000 7:01 PM
To: 'Robertson, Scott'; Randall, Jeffrey; 'twoolston'
Cc: Pope, Patrick
Subject: RE: MercExchange

Scott, Tom and Jeff:

Below is an outline description of where we are in this negotiation and what I think we should try to achieve on Wednesday when we meet.

eBay is interested in acquiring the family of applications related to U.S. Patent No: 5,845,265.

eBay understands that this portfolio includes (at least) the following pending applications: 09/203,286 filed 12/1/98; 09/166,779 filed 10/6/98; 09/253,014 filed 2/19/99; 09/253,015 filed 2/19/99; 09/253,021 filed 2/19/99; 09/253,057 filed 2/19/99; 09/264,573 filed 3/8/99; and 09/418,564 filed 10/15/99.

The purpose of this meeting is agree on a procedure that will allow the parties to develop a process for moving forward including eBay's due diligence re this portfolio of patents.

1. MercExchange will give a brief (30' or so) presentation re the patent family, the types of inventions being prosecuted, and the status of the prosecution of the individual applications;

2. the parties will discuss a process to arrive at a valuation and for eBay to conduct its due diligence.

>—Original Message—

> From: Robertson, Scott
[SMTP:SRobertson@hunton.com]

> Sent: Monday, June 26, 2000 1:15 PM

> To: 'Andrew Kumamoto'; 'Jeffrey Randall'

> Subject: MercExchange

> Importance: High

> Gentleman, I represent MercExchange. I understand there is going to be a meeting at my office on Wednesday at 1:30 PM and that you will be representing ebay in these talks:

> In advance of that meeting—since it is at your request—I would appreciate it if you could email me a proposed agenda for the discussion.

Thank you for your anticipated cooperation.

> Scott L. Robertson
Hunton & Williams
1900 K Street, N.W.
Washington D.C. 20006-1109
(202) 778-2238 (direct)
(202) 778-2201 (fax)
e-mail: srobertson@hunton.com

* Atlanta * Bangkok * Brussels * Charlotte * Hong Kong * Knoxville *London * McLean * Miami * New York * Norfolk * Raleigh * Richmond * Warsaw * Washington *

Exhibit 99.3

Contact: Kevin Pursglove, eBay, 408-376-7458, kevinp@ebay.com Vince Sollitto, PayPal, 888-337-3533, vsollitto@paypal.com

EBAY TO ACQUIRE PAYPAL SHARED MISSION WILL EXPAND PLATFORMS AND BENEFIT CONSUMERS EBAY ANNOUNCES RESULTS FOR SECOND QUARTER 2002

San Jose and Mountain View, CA, July 8, 2002—In a move that will help millions of Internet users buy and sell online, eBay Inc. (Nasdaq: EBAY; www.ebay.com), the world's online marketplace, today announced that it has agreed to acquire PayPal, Inc. (Nasdaq: PYPL; www.paypal.com), the global payments platform. The acquisition, which is subject to various stockholder, government and regulatory approvals, is expected to close around year-end 2002.

A natural extension of eBay's trading platform, the acquisition supports the company's mission to create an efficient global online marketplace. Payment is a vital function in trading on eBay and integrating PayPal's functionality into the eBay platform will fundamentally strengthen the user experience and allow buyers and sellers to trade with greater ease, speed and safety.

The agreement also should benefit eBay shareholders. The combination of the two networks should expand both platforms while minimizing shared operational costs. Strengthening the marketplace and realizing the efficiencies made possible by the acquisition will increase the value of both businesses.

eBay will acquire all of the outstanding shares of PayPal in a tax-free, stock-for-stock transaction using a fixed exchange ratio of 0.39 eBay shares for each PayPal share. Based on

eBay's stock price on July 5. 2002, the acquisition is valued at $1.5 billion. According to preliminary estimates, the recognized purchase price is also expected to include approximately $18 million for acquisition-related costs. The calculation of the final purchase price may vary significantly from these estimates, and will depend upon a number of factors, including the length of time necessary to close the transaction, and the value of eBay stock at closing.

The transaction is expected to be immediately accretive to eBay's pro-forma earnings per share. On a GAAP basis the company will initially incur incremental charges for stock-based compensation and amortization of intangible assets of approximately $4 million and $9 million per quarter, respectively. Accordingly, eBay expects the transaction to be dilutive on a GAAP reported basis.

"eBay and PayPal have complementary missions. We both empower people to buy and sell online" said Meg Whitman, President and CEO of "Together we can improve the user experience and make online trading more compelling. We can also capture greater value from the e-commerce opportunities occurring both on and off our site."

eBay's United States Utility Patent Applications Produced

No.	Filing Date	Title	MercExchange Patents Cited To Patent Office By eBay
1.	23 OCT 1998	Information Presentation and Management in an Online Trading Environment	
2.	09 NOV 1999	Information Presentation and Management in an Online Trading Environment	'265 Patent
3	08 DEC 1999	Integrated Auction	'265 Patent
4	26 JAN 2000	Method and Apparatus for Facilitating User Selection of an Item Category in an Online Auction	
5	29 FEB 2000	Method and System for Harvesting Feedback and Comments Regarding Multiple Items from Users of a Network Based Transaction Facility	'265 Patent
6	09 MAR 2000	Method and Apparatus for Verifying the Identity of a Participant Within an Online Auction Environment	'176, '051 and '651 Patents
7.	29 MAR 2000	Method and System for Automatically Updating Search Results on an Online Auction Site	
8	04 APR 2000	Information Presentation and Management in an Online Trading Environment	'265 Patent
9	24 APR 2000	Generic Attribute Database System	'265 Patent
10	11 MAY 2000	Method and Apparatus for Dual Online Registration Contact Information System	
11	22 MAY 2000	Method and Apparatus for Facilitating On-line Payment Transactions in a Network Based Transaction Facility	
12	30 MAY 2000	Method and System for Reporting Fraud and Claiming Insurance Related to Network Based Transactions	
13	07 JUN 2000	Dynamic Selection of Images for Web Pages	'265 Patent

No.	Filing Date	Title	MercExchange Patents Cited To Patent Office By eBay
14	21 JUN 2000	Method and System for Defining and Uploading Multiple Transaction Descriptions from a Client to a Network Based Transaction Facility	'265 Patent
15	13 JUL 2000	Method and System for Detecting Fraud	'265 Patent
16	21 JUL 2000	Live Auction	'265 Patent
17	13 SEP 2000	Monitoring and Automatic Notification of Irregular Activity in a Network Based Transaction Facility	'265 Patent
18	22 SEP 2000	Method and System for Communicating Selected Search Results Between and First and Second Entities Over a Network	'265 Patent
19	20 NOV 2000	Method and System for Dealing with Non-Paying Bidders Related to Network Based Transactions	
20	04 DEC 2000	Method and Apparatus for Facilitating User Registration in an Online Auction Environment	'176, '051 and '651 Patents
21	08 DEC 2000	Method and System for Categorizing Items in both Actual and Virtual Categories	'265 Patent
22	19 DEC 2000	Method and Apparatus for Providing Predefined Feedback	
23	21 DEC 2000	Method and System for the Creation and Communication of Notes Concerning an Auction Participant or Items with a Networked Base Traction Facility	'265 Patent
24	15 JAN 2001	Method and System to Implement Seller Authorized Bidding within a Network Based Auction Facility	'265 Patent
25	29 JAN 2001	Method and System for Maintaining Log in Preference Information of Users in a Network Based Transaction Facility	
26	05 FEB 2001	Information Presentation and Management in an Online Trading Environment	

No.	Filing Date	Title	MercExchange Patents Cited To Patent Office By eBay
27.	14 FEB 2001	Method and Apparatus for Performing Declining Price Auction Over One or More Networks	'265 Patent
28.	28 MAR 2001	Method and System to Enable a Fixed Price Purchase within an Online Auction Environment	
29.	03 APR 2001	Method and System to Automatically Remind Parties to a Network-based Transaction to Comply with Obligations Established Under Transaction Agreement	
30.	12 JUL 2001	Method and System for Listing Items Globally and Regionally and Customizing Listing According to Currency or Shipping Areas	'265 Patent
31.	12 JUL 2001	Method and Apparatus to Detect Suspicious Transaction within a Network Based Auction Facility	
32.	31 JUL 2001	Method and System to Facilitate Pre-ordering via an Electronic Commerce Facility and to Automatically Facilitate Satisfying of Pre-order Upon Listing of an Appropriate Offering via the Electronic Commerce Facility	'265 Patent
33.	22 AUG 2001	Hide Through-put Reliable Messaging Interface	
34.	12 SEP 2001	Method and Apparatus for Facilitating User Selection of an Item Category in an Online Auction	
35.	01 OCT 2001	Method and Apparatus for Conducting a Discount Program in an Online Auction Environment	'265, '176, '051 and '651 Patents
36.	11 OCT 2001	System and Method to Facilitate Translation of Communication between Entities over a Network	
37.	17 OCT 2001	System and Method to Control Spending of Unsolicited Communications over a Network	'265, '176 and '051 Patents

No.	Filing Date	Title	MercExchange Patents Cited To Patent Office By eBay
38.	31 OCT 2001	Method and Apparatus to Facilitate a Transaction within a Network Based Auction Facility	
39.	13 NOV 2001	Taxonomy Based Database Partitioning	'265 Patent
40.	14 DEC 2001	Method and System Automatically to Support Multiple Transaction Types and to Display Seller Specific Transactions of Various Transaction types in an Integrated Co-mingled listing	'265 Patent
41.	18 DEC 2001	Prioritization of Third Party Access to an Online Commerce Site	'265 Patent
42.	29 JAN 2002	Combined Auction and Fixed Price Check out System	'265 Patent
43.	14 FEB 2002	Determining a Community Rating for a User Using Feedback Ratings of Related Users in An Electronic Environment	'265 Patent

* * * *

. . . interests in all Leased Real Property, in each case free and clear of all Encumbrances, except (i) such as are set forth in Part 2.8 of the Disclosure Schedule, (ii) leases, subleases and similar agreements set forth in Part 2.8 of the Disclosure Schedule, (iii) easements, covenants, rights-of-way and other similar restrictions of record that do not (in any case or in the aggregate) materially detract from the value of the assets subject thereto or materially impair the operations of the Company, (iv) any conditions that may be shown by a current, accurate survey or physical inspection of any Leased Real Property made prior to Closing and that do not, individually or in the aggregate, materially detract from the value of the assets subject thereto or materially impair the operations of the Company, and (v) minor liens that have arisen in the ordinary course of business and have been or will be paid promptly and that do not (in any case or in the aggregate) materially detract from the value of the assets subject thereto or materially impair the operations of the Company.

2.9 Intellectual Property.

(a) Part 2.9(aXi) of the Disclosure Schedule sets forth each trademark, trade name, service mark, service name, patent, patent application and copyright owned by the Company. Part 2.9(a)(ii) of the Disclosure Schedule identifies each trademark, trade name, service mark, service name, patent, patent application and copyright licensed to the Company by any Person (except for any trademark, trade name, service mark, service name, patent, patent application and copyright that is licensed to the Company under any third

party software license generally available to the public at a cost of less than $10,000), and identifies the license agreement under which such trademark, trade name, service mark, service name, patent, patent application and copyright is being licensed to the Company. The Company has good, valid and marketable title to all of the Proprietary Assets identified in Part 2.9(a)(i) of the Disclosure Schedule, free and clear of all liens and other Encumbrances, and has a valid right to use all Proprietary Assets identified in Part 2.9(a)(ii) of the Disclosure Schedule. Except as set forth in Part 2.9(a)(iv) of the Disclosure Schedule, the Company has not developed jointly with any other Person any Company Proprietary Asset with respect to which such other Person has any rights.

(b) The Company has taken all measures and precautions reasonably necessary to protect and maintain the confidentiality and secrecy of all Company Proprietary Assets (except Company. Proprietary Assets whose value would be unimpaired by public disclosure) and otherwise to maintain and protect the value of all Company Proprietary Assets purported to be owned by the Company. Except as set forth in Part 2.9(b)(i) of the Disclosure Schedule, the Company has not (other than pursuant to license agreements identified in Part 2.10 of the Disclosure Schedule) disclosed or delivered to any Person, or permitted the disclosure or delivery to any Person of, (i) the source code, or any portion or aspect of the source code, of any Company Proprietary Asset, or (ii) the object code, or any portion or aspect of the object code, of any Company Proprietary Asset purported to be owned by the Company. All current and former employees, consultants and independent contractors that are or were involved in the creation, invention, research or development of the Company Proprietary Assets have executed and delivered to the Company written agreements assigning to the Company all of their rights, title and interest in and to said Company Proprietary Assets.

(c) Except as set forth in Part 2.9(c)(i) of the Disclosure Schedule, none of the Company Proprietary Assets infringes or conflicts with any Proprietary Asset owned or used by any other Person. Except as set forth in Part 2.9(c)(i) of the Disclosure Schedule, the Company is not infringing, misappropriating or making any unlawful use and the Company has not at any time infringed, misappropriated or made any unlawful use of, or received any notice or other communication of any actual or alleged infringement, misappropriation or unlawful use of, any Proprietary Asset owned or used by any other Person. Except as set forth in Part 2.9(c)(ii) of the Disclosure Schedule, to the best of the knowledge of the Company, no other Person is infringing, misappropriating or making any unlawful use of, and to the best of the knowledge of the Company no Proprietary Asset owned or used by any other Person infringes or conflicts with, any Company Proprietary Asset.

(d) The Company Proprietary Assets constitute all the Proprietary Assets necessary to enable the Company to conduct its business in the manner in which such business has been and is being conducted. The Company has not licensed any of the Company Proprietary Assets to any Person on an exclusive basis and the Company has not entered into any covenant not to compete or Contract limiting its ability to exploit fully any of its Proprietary Assets or to transact business in any market or geographical area or with any Person.

(e) The computer systems and other applicable Company Proprietary Assets are Year 2000 Compliant.

2.10 Contracts.

(a) Part 2.10(a) of the Disclosure Schedule identifies:

(i) each Company Contract relating to the employment of, or the performance of services by, any employee, consultant or independent contractor providing for annual payments in excess of $20,000;

(ii) each Company Contract imposing any restriction on the Company's right or ability (A) to compete with any other Person or (B) to transact business or deal in any other manner with any other Person (other than non-disclosure agreements entered into in the ordinary course of business that only restrict the use of information received from vendors, consultants or other third parties);

(iii) each Company Contract creating or involving any agency relationship, distribution arrangement or franchise relationship;

(iv) each Company Contract relating to the acquisition, issuance or transfer of any securities;

(v) each Company Contract creating or relating to any partnership or joint venture or any sharing of revenues, profits, losses, costs or liabilities;

(vi) each Company Contract with any Related Party (as defined in Section 2.18) other than Contracts with Persons that are controlled by or affiliated with . . .

* * * *

Part 2.9(c)(i)
Infringement by Company of Proprietary
Assets of Any Third Party

1. The Company has registered the following domain names that reference third party marks:

   EBAYZON.COM
   EBAZON.COM
   HALFOFFAMAZON.COM
   HALFFOFFBARNESANDNOBLE.COM
   HALFOFFCDNOW.COM
   HALFOFFMUSICBLVD.COM

   The Company has received no written notice or expression of concern from any third party regarding these domain names.

2. The Company enables its users to execute real-time searches of prices on the internet sites of third parties through its "'Buy it New on the Web' feature". The Company follows industry standard practices for this "'Buy it New on the Web' feature" and will discontinue searching of third party sites if requested by the owner of the site. The Company has not received any notice of any claim with respect to its search price feature.

3. (a) The Company has used the service marks, trade names, trademarks, and other indicia of origin ("Marks"), including the graphical and stylized versions thereof, of third parties on its website for the purpose of merchandising items: Those third parties and Marks are:

   Oprah's Book Club
   Disney
   American Film Institute Playstation
   Dreamcast

   (b) The Company uses the above referenced Marks of

third parties on its website for the purpose of merchandising items. The Company uses the Marks only as plain text The Company believes that such use is "fair use" and the Company has received no notice regarding such use.

4. The Company frames the websites of third parties, including the following:

Amazon.com	Efollett.com
Al books	FatBrain.com
Barnesandnoble.com	Borders.com
Bigstar.com	Virgin Megastore
Bookbuyers Outlet	Best Buy Online
1Bookstreet	MusicDepot
CDWorld	
CD Universe	GamePro SuperStore
EBWorld.com	

Framing may be considered an infringement of proprietary rights of those parties, although the Company has not received any notice of any claim with respect to its framing practices.

5. On June 20, 2000, the Company received an "offer to license ecommerce technology" on behalf of Storefront Development Corporation. The "offer" letter included a summary of an alleged pending patent, titled "Method for Buying and Selling Merchandise in a Network of Users". Storefront had also, for a short period of time, posted a "press release" on its website, www.storefront-development.com, alleging that its pending patent would render the Company's pending patent(s) invalid.

6. In a letter dated June 8, 2000, counsel for Half Price Books, Records, Magazines, claimed that Company's use of "Haltcom" raised trademark issues. Half Price Books, Records, Magazines requested that the Company place a disclaimer on its site stating that it is not affiliated with

claimant. Counsel for the Company has had two conversations with opposing counsel, and currently she is reconsidering her client's position. The Company may or may not hear from this party again.

* * * *

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ___ to ___.

Commission file number 000-24821

eBay Inc.

(Exact name of Registrant as specified In Its charter)

Delaware	77 0430924
(State or other jurisdiction of incorporation or organization)	(I.RS. Employer Identification Number)
2145 Hamilton Avenue San Jose, California (Address of principal executire offices)	95125 (Zip Code)

(408) 558-7400

(Registrant's telephone number, including area code)

Check whether the registrant: (1) filed all reports required to be filed by Section 13 or I5(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes El No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will- not be contained, to the best of the

registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ❑

As of March 1, 2001 there were 269,310,946 shares of the Registrant's common stock, 50.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued as of that date. The aggregate market value of the voting stock held by non-affiliates computed by reference to the closing price for the common stock as quoted by the Nasdaq Stock Market as of March 1, 2001 was approximately 55,395,955,138.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 through 13 are incorporated by reference to eBay's Proxy Statement for the 2001 Annual Meeting of stockholders to be filed by April 30, 2001.

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PART I

Item 1: Business

This Annual Report on Form 10-K contains forward-looking statements based on our current expectations about our company and our industry. You can identify these forward-looking statements when you see us using words such as "expect," "anticipate," "estimate" and other similar expressions. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors described in the "Risk Factors" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report. We undertake no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Corporate Background

eBay Inc. was formed as a sole proprietorship in September 1995, and was incorporated in California in May 1996. In March 1998, we reincorporated in Delaware and completed our initial public offering in September 1998. Our principal executive offices are located at 2145 Hamilton Ave., San Jose, California, 95125, and our telephone number is (408) 558-7400. When we refer to "we" or "eBay" in this Annual Report on Form 10-K, we mean the current Delaware corporation (eBay Inc.) and its California predecessor, as well as all of our consolidated subsidiaries. When we refer to "eBay.corn" we mean the U.S.-based dynamic pricing online trading platform located at www.ebay.com.

The Company

eBay owns and operates eBay.com, which, based upon the aggregate value of goods traded, is the world's largest and most popular online marketplace. Our mission is to develop a global online trading platform that will help practically anyone buy or sell practically anything.

eBay pioneered online personal trading by developing a Web-based community in which buyers and sellers are brought together in an efficient and entertaining format to buy and sell items such as collectibles, automobiles, high-end or premium art items, jewelry, consumer electronics and a host of practical and miscellaneous items. The eBay dynamic pricing (i.e. auction-style) format permits sellers to list items for sale, buyers to bid on items of interest and all eBay users to browse through listed items. eBay's service is fully automated, topically arranged, intuitive and easy to use.

As of March. 1, 2001, through our wholly-owned and partially-owned subsidiaries and affiliates, we operated dynamic pricing online trading platforms in the United States, Germany, the United Kingdom, Australia, Japan, Canada, France, Austria, Italy and South Korea. In February 2001, we

announced an agreement to acquire 100% of the outstanding stock of iBazar S.A., a leading provider of online trading services in Europe and Brazil. With the completion of this acquisition, currently scheduled for the second quarter of 2001, we expect to broaden our international reach in online trading to include Spain, the Netherlands, Belgium, Portugal, Sweden and Brazil. eBay also owns and operates Half.com, which provides an alternative, fixed-price format for trading books, recorded music, movies (VHS, DVD) and video games. Through our 65 percent owned subsidiary Billpoint Inc., we also facilitate online trading transactions by providing sellers and buyers with the necessary tools to conduct person-to-person credit card and electronic check payments safely over the Web.

From December 31, 1998 to December 31, 2000, the number of registered eBay users grew from approximately 2 million to approximately 22 million. eBay users listed over 79 million items for sale in more than 8,000 categories during the fourth quarter of 2000, up from 41 million items in the fourth quarter of 1999. This includes items listed on eBay.com, eBay's international sites and items sold on Half.com. The aggregate value of goods sold, or gross merchandise sales, on the various eBay and Half.com sites in the fourth quarter of 2000, was approximately $1.6 billion, up from $901 million in the fourth quarter of 1999. In 2000, eBay users listed more than 264.7 million items and completed transactions with an aggregate value of more than $5.4 billion:

eBay also owns and operates Butterfields Auctioneers ("Butterfields") and Kruse International ("Kruse"), which provide traditional ovine :auction services for fine art, antiques and collectibles and collector cars, respectively.

Butterfield% established in 1865 is the largest auction house in the Western United States, with full-service galleries in San Francisco and Los Angeles and a regional office in Seattle.

Kruse is one of the world's leading collector car auction companies and sold thousands of cars per year in more than 20 events. In addition to collector cars, the company has auctioned distinctive real estate, vintage aircraft, islands, zoos, railroads and three entire towns.

Industry Background

Growth of the Internet and Online Commerce

The Internet has emerged as a global medium enabling millions of people worldwide to share information, communicate and conduct electronic commerce transactions. According to Nua Internet Surveys, as of November 2000, more than 400 million people worldwide had access to the Internet either at home or work. And, according to Forrester Research, the total value of global e-commerce transactions in 2001 is expected to be more than $1.2 trillion, up from approximately $657 billion in 2000.

The Internet offers the first opportunity to create a compelling global business that overcomes the inefficiencies associated with traditional trading among buyers and sellers of all types. An Internet-based, centralized trading place offers the following benefits:

- facilitates buyers and sellers meeting, listing items for sale, exchanging information, interacting with each other and, ultimately, consummating transactions;
- allows buyers and sellers to trade directly, bypassing traditional intermediaries and lowering costs for both parties;
- is global in reach, offering buyers a significantly broader selection of goods to purchase and providing . sellers the opportunity to sell their goods efficiently to a broader base of buyers; offers significant convenience, allowing trading at all hours and providing continuously updated information;

- fosters a sense of community through direct buyer and seller communication, thereby enabling interaction between individuals with mutual interests; and
- establishes fair market prices for items where no efficient market is in place (e.g. rare items, distressed and surplus rods).

The Opportunity of Online Trading

eBay's online trading platform has historically offered the exchange of goods among buyers and sellers of all types, competing with classified advertisements collectibles shows, garage sales, flea markets and other venues such as auction houses. As eBay's service has evolved, its applicability has expanded to broader categories of items, and to a broader and more global user base. As a result, eBay's product mix has shifted from primarily collectible items to practical everyday items, such as household goods, computers, consumer electronics and other items. With the shift to a broader product offering, its competition has also broadened - and now includes distributors, liquidators, retailers, import and export companies, catalog and mail order companies, and virtually all online and offline commerce participants (consumer-to-consumer, business-to-consumer, and business-to-business).

Many of these traditional trading forums are inefficient because:

- they often have a fragmented, regional nature making it difficult and expensive for buyers and sellers to meet, exchange information and complete transaction
- they may offer a limited variety or breadth of goods;
- they often have high transaction costs; and
- they are often information inefficient, as buyers and sellers lack a reliable and convenient means of setting prices for sales or purchases.

The eBay Online Trading Platform

The core eBay online trading platform permits sellers to list items for sale, buyers to bid for and purchase items of interest and all eBay users to browse through listed items from any place in the world at any time. The eBay website offers buyers a large selection of new and used items that can be difficult and costly to find through traditional distribution channels and offers sellers one of the most efficient and vibrant online distribution channels available. The Half.com fixed price platform permits sellers to list books, recorded music, movies (VHS and DVD) and video games for sale, buyers to purchase items at a price pre-established by the seller, and all Half.com users to browse through listed items from any place at any time.

The eBay service was originally introduced in September 1995 to create an efficient forum for individuals to trade with one another. Since its beginning as a grassroots online trading community, eBay has primarily attracted buyers and sellers through word of mouth and by providing buyers and sellers a place to socialize, discuss topics of common interest and ultimately to trade goods with one another. The number of categories under which eBay users list goods for sale has grown from 10, when eBay was first introduced, to more than 8,000 as of December 31, 2000. The main categories on eBay.com currently include, antiques and art, books, movies, music, coins and stamps, collectibles, computers, dolls, dollhouses, jewelry, photo and electronics, pottery and glass, real estate, sports, toys and miscellaneous items ("everything else"). Specialty marketplaces have also been added to serve the specialized needs of buyers and sellers, for example eBay Motors was developed to serve the automotive marketplace, including vehicles, parts and accessories; eBay Premier was developed to leverage the premium art and collectibles marketplace in conjunction with Butterfields and Half.com is

focused on providing a fixed-price trading environment, initially for books, music, videos and video games.

The principal reasons for eBay's success to date are as follows:

Largest Online Trading Forum. Unlike other commerce trading forums, eBay has aggregated a critical mass of buyers, sellers and items listed for sale, which in turn has resulted in an extremely vibrant and robust trading environment. eBay sellers enjoy generally high sell-through or conversion rates and buyers enjoy an extensive selection of broadly priced goods and services. At December 31, 2000, eBay had over 22 million registered users, offered more than 8,000 product categories and listed more than 6 million items for sale in an auction-style format and more than 8 million items for sale in fixed-price format on Half.com.

Compelling Trading Environment. eBay has created a distinctive trading environment by utilizing entertaining pricing formats, establishing procedural rules and promoting community values that are designed to facilitate trade and communications between buyers and sellers. The trading environment's efficiency is illustrated by the limited need for eBay to intervene or play a significant role in the trading process. The auction pricing format found on eBay creates a sense of urgency among buyers to bid for goods because of the uncertain future availability of unique items on the website. Similarly, by accepting multiple bids at increasing prices, the auction pricing format provides sellers a more efficient means of obtaining a fair market price for their products. While the dynamic and exciting auction format appeals to certain users and is particularly appropriate for unique and other hard-to-value items, many mass-market product categories are more effectively merchandised in a fixed price format, and certain users prefer the immediacy and convenience of a fixed price purchase. Our acquisition of Half.com in July 2000, and the implementation of our "Buy it

Now" fixed price feature on eBay.com, have expanded our marketplace by attracting a new consumer demographic and accelerated the velocity of trading by reducing the length of time between listing an item and completing the transaction.

Trust and Safety Programs. eBay has developed a number of programs designed to make users more comfortable dealing with an unknown trading partner over the Web. eBay's Feedback Forum encourages every user to provide comments and feedback on other eBay users with whom they interact and offers user profiles that provide feedback ratings and incorporate user experiences. In addition, eBay's expanded SafeHarbor™ program provides guidelines for trading, helps provide information to resolve user disputes, responds to reports of misuse of the eBay service and, if necessary, warns or suspends users who violate the terms of its user agreement. eBay's ongoing trust and safety initiatives, including user verification, credit card requirements for sellers, insurance, integrated escrow, authentication and methods to help keep previously suspended users from re-registering on eBay, are all intended to bolster eBay's reputation as a safe place to trade. eBay has also developed an extensive set of rules and guidelines designed to educate users and help implement its policy of prohibiting the sale of illegal or pirated items.

Cost-Effective, Convenient Trading. eBay allows its buyers and sellers to bypass traditionally expensive, regionally fragmented intermediaries and transact business on a 24 hour, seven days a week basis. Because sellers bypass costly intermediaries, they frequently have lower selling costs and an increased likelihood of finding buyers willing to pay the target price. Listing an item on eBay requires sellers to generally pay a nominal placement fee ranging from $0.30 to $3.30 and an additional success fee from 1.25% to 5% of the transaction value if the sale is successfully concluded. Certain categories, namely autos and real estate, have a different fee policy that consists of a $25 and $50 listing fee, respectively,

and a $25 success fee for autos and no success fee for real estate. Listing an item on Half.com is free; successful sellers are charged a commission equal to 15% of the final sale price at the time a buyer pays the seller as well as a shipping fee. As a result of these pricing policies, sellers can cost-effectively sell relatively inexpensive items that had previously been prohibitively expensive to list through most traditional trading forums. By allowing sellers to conveniently and easily reach a broad range of buyers, eBay also addresses the time-consuming, logistical inconvenience of individual selling. Buyers have access to a broad selection of items and avoid the need to pay expensive markups or commissions to intermediaries. The critical mass of items listed on eBay provides a mutual benefit for buyers and sellers allowing both to effectively determine an appropriate price for an item.

Strong Community Affinity. eBay believes that fostering direct interaction between buyers and sellers with similar interests has enabled it to create a loyal, active community of users. eBay has introduced a variety of features and services designed to strengthen this sense of community among eBay users. eBay facilitates communications between buyers and sellers by offering chat rooms, bulletin boards, threaded discussion boards, customer support assistance from its personnel or other eBay users and by providing "About Me" user pages. These community features encourage consumer loyalty and repeat usage.

Intuitive User Experience. The eBay trading platform is a fully automated, topically arranged, intuitive and easy-to-use online service that is available on a 24 hour, seven day a week basis. On the dynamic trading platform, a seller can list items for sale within minutes of completing a simple online form and buyers can submit bids for items quickly and easily. Buyers can easily search the millions of items listed by category or specific item. During the course of the transaction, bidders are notified by email of the status of their bids

on a daily basis and are notified immediately if they are outbid. Sellers and successful bidders are automatically notified when a transaction is completed. To assist users further, eBay offers email customer support staffed on a seven day a week basis. On the Half.com fixed price platform, sellers can easily list items by simply entering the ISBN or UPC bar code number of their item, along with the item's condition and selling price. Half.com automatically adds descriptions and pictures to each listing, so sellers do not need to do it themselves. Buying at Half.com is similar to the shopping experience at other leading online retailers. Buyers can browse by category or search by title or artist/author. When they want to buy, they simply put items in their cart, enter their credit card number and check out. Customers can also see real-time price comparisons of new versions of the same item through an on-screen shopping agent.

eBay Strategy

eBay's objective is to build upon its position as the world's leading community-commerce model and the most compelling commerce platform on the Internet. Our vision is to help practically anyone buy or sell practically anything in the world. The key elements of eBay's strategy are to:

Broaden the eBay Trading Platform. eBay has pursued a multi-pronged strategy for growing the eBay platform in several dimensions: within existing product categories, across new product categories, through geographic expansion, both local and international, and through introduction of additional pricing formats such as fixed price sales. eBay targeted key product categoric in its user programs and marketing activities. eBay has expanded and developed existing product categories by introducing category-specific bulletin boards and chat rooms, integrating category-specific content, advertising its service in targeted publications and participating in targeted trade shows. In addition, eBay broadened the range of users and added product categories, content, features and

other services to meet this new user demand. The increasing number and importance of practical (as opposed to collectible) items on the site is illustrative of this broadened range. eBay has also broadened the range of products that it offers to facilitate trading on the site, including payment services, shipping services, authentication, appraisal, vehicle inspection and escrow services. In addition, eBay has successful introduced two fixed-price formats through Half.com and the "Buy It Now" feature.

During 2000, a number of improvements intended to broaden the eBay trading platform were introduced, including:

- the acquisition of Half.com, a fixed-price, person-to-person trading website where buyers and sellers can trade used books, CDs, movies and video games at fixed prices that are less than the list price;
- the launch of eBay Motors in association with AutoTrader.com, which created the Internet's largest auction-style website for consumers and dealers to buy and sell used cars;
- the launch of additional eBay Regional sites. In 2000, eBay launched eight regional sites to encourage the sale of items that are too bulky or expensive to ship, items of local interest and items that people prefer to view before purchasing;
- the launch of over 5,000 new categories that make it easier to find items in diverse categories;
- the launch of the eBay "Application Program Interface (API) and Developers Program", which allows other companies to use eBay content to drive their own businesses. The API provides three basic benefits. First, it allows eBay to be fully integrated into independent sites across the Internet. A new site will be able to use the eBay commerce engine to power its

business, eliminating time and expense from the start-up process. As a second benefit, the API will allow eBay and its commercial partners to more easily and rapidly add eBay's services to new devices, such as wireless telephones and handheld computers. Finally, the new platform interface will improve the user experience by allowing more companies to provide services to eBay users;

- the introduction of Live Auctions technology on eBay Premier. Providing real-time bidding via the Internet, this new feature allows individuals to participate in the excitement of traditional live sales from auction house floors anywhere in the world;

- the launch of Electronic Checks as a new payment option. Electronic Check is the latest innovation in Internet-based payments, providing buyers and sellers with a means for faster transactions without returned checks, with no paperwork and no charge back risk. For eBay buyers, Electronic Check combines the convenience of paper checks with the safety, convenience and speed of electronic payments. For eBay sellers, Electronic Check is a cost-effective alternative to paper checks and credit cards where payment is guaranteed;

- the launch of eBay Anywhere, a comprehensive mobile strategy that aims to make eBay accessible from any Internet-enabled mobile device. From WAP mobile phones to the latest PDAs, eBay Anywhere brings together leading technology companies, mobile carriers, portals and hardware vendors with the goal of making eBay accessible to any user's choice of handheld Internet device;

- the launch of a new category called eBay Real Estate, intended to make property transactions on eBay easier

for buyers and sellers, and to provide a dedicated home for eBay's emerging, real estate marketplace.

Foster eBay Community Affinity. eBay continues to enhance what is already the largest and one of the most loyal online trading communities on the Web. By instilling a vibrant eBay community experience, eBay seeks to maintain a critical mass of frequent buyers and sellers with a vested interest in the eBay community. eBay believes that new community tools, such, as About Me personal pages and threaded message boards will continue to contribute to the community vibrancy. eBay's trust and safety initiatives, including user verification, requirements for new sellers to have a credit card on file, insurance, integrated escrow, authentication and appraisal are intended to bolster eBay's reputation as u safe place to trade. Consistent with its desire to foster community, eBay has organized a charitable fund, known as the eBay Foundation, and involves the members of the eBay community in determining to which charitable purposes the eBay Foundation's funds will be applied. See "The eBay Service—Community Services."

Enhance Features and Functionality. eBay intends to continually update and enhance the features and functionality of the eBay and Half.com websites to ensure continuous improvement to the trading experience. During 2000, eBay added many new features and services to help buyers and sellers trade with greater ease, including a single login feature, smart search, counters for sellers, Highlight and Feature Plus!, integrated photo hosting, "List in Two Categories," a feature that allows users to cross merchandise their items in two categories simultaneously, a pre-approve bidder tool that gives sellers the ability to set up their own pre. qualification guidelines for bidders, and "Buy It Now," a feature that allows buyers to purchase items immediately and skip the auction process.

Expand Value-Added Services. In order to offer an end-to-end personal trading service, eBay provides a variety of "pre-trade" and "post-trade" services to enhance the user experience and make trading easier. "Pre-trade" services make listing items for sale easier and include photo hosting, authentication and seller productivity software. "Post-trade" services make transactions easier and more comfortable to consummate, such as payment facilitation, insurance, vehicle inspections, escrow, shipping and postage. eBay currently provides, or will provide, these services directly or through strategic partnerships with third parties.

Value-added services introduced during 2000 include:

- the launch of eBay Picture Services, powered by iPIX, which provides eBay users with an easy-to-use, robust set of imaging services that allow sellers to simply drag and drop images into image wells on the eBay Sell Your Item form. Users may also preview their images on the Sell Your Item form and have their images automatically resized and formatted for optimal viewing
- the addition of Saturn and its retailers to provide a nationwide automobile inspection service. The new inspection service, developed and offered by Saturn, is now part of eBay Motors and AutoTrader.com's co-branded automobile site; and
- the integration of Keen.com, the first Live Answer CommunityTM, into key areas of eBay's online trading platform. The integration is intended to make it more convenient for eBay's 22 million users to contact Keen.com's members and get live answers to questions on many topics, including trading and collectibles.

Continue to Develop United States and International Markets. eBay believes that the Internet provides a significant

opportunity for the creation of efficient trading platforms in local, national and international . markets and that over time, these platforms can be transformed into a seamless, truly global trading environment. eBay intends to take advantage of this opportunity by developing eBay for selected local, national and international markets and actively marketing and promoting these services. On the local level, eBay has already rolled out local trading for 60 geographic regions in the United States and has launched a similar regional service offering in Germany, the United Kingdom, Canada and Australia. The creation of regional trading sites makes it easier and more practical to buy and sell items of local interest and items too large, expensive or complex to effectively trade on a wider geographical level. eBay will continue to consider the addition of regional sites in U.S. and international markets that offer a critical mass of users and a significant electronic commerce opportunity. Internationally, eBay has introduced country-specific services for Canada, the United Kingdom, Australia, Germany, Japan, France, Austria, Italy and through the February 2001 acquisition of Internet Auction Company Ltd., South Korea. eBay believes that its user base already includes users located in over 200 countries.

eBay can choose from several strategies to enter new international markets, including building a user community solely through internal efforts, acquiring a company already in the local trading market or partnering with strong local companies. eBay has employed each of these strategies where appropriate, as follows:

- our presence in the United Kingdom, Canada, France, and Italy was built with local management teams and a combination of grass-roots and online marketing programs;
- our presence in Germany was built primarily through the June 1999 acquisition of alando.de.ag, an existing German trading service;

- we entered into a joint venture with a subsidiary of one of the largest media companies in Australia to penetrate this market;
- in February 2000, we announced a relationship with NEC to jointly address the market in Japan. As part of that agreement, NEC agreed to purchase a 30% equity interest in eBay Japan;
- in February 2001, we acquired a majority ownership interest in Internet Auction Co. Ltd., South Korea's largest online trading service; and
- in February 2001, we announced an agreement to acquire 100% of iBazar S.A., Europe's largest online trading platform. iBazar has a leading presence in 7 of its 8 markets, which include France, Italy, Spain, Portugal, the Netherlands, Belgium, Brazil and Sweden.

The eBay Dynamic Pricing Format

The eBay dynamic pricing trading platform is a robust, Internet-based, centralized trading environment that facilitates buying and selling of a wide variety of items.

Registration. While any visitor to eBay can browse through the eBay service and view the items listed for sale, in order to bid for an item or to list an item for sale, buyers and sellers must first register with eBay. Users register by completing a short online form and thereafter can immediately bid for an item or list an item for sale. Users in Canada, Germany, Japan, Australia, the United Kingdom, France, Italy, Austria may instead register through country-specific home pages.

Buying an eBay. Buyers typically enter eBay through its home page, which contains a listing of product categories that allows for easy exploration of current items for sale. Bidders can search for specific items by browsing through a list of items within a category or subcategory and then "clicking

through" to a detailed description for a particular item. Bidders also can search specific categories, interest pages or the entire database of item listings using keywords to describe the types of products in which they are interested. eBay's search engine will then generate a list of relevant items with links to the detailed descriptions. Each item is assigned a unique identifier so that users can easily search for and track specific items. Users also can search for a particular bidder or seller by name in order to review his or her item for sale and feedback history as well as search for products by specific region or search in the "Gallery" mode. Once a bidder has found an item of interest and registered with eBay, the bidder enters the maximum amount he or she is willing to pay at that time. In the event of competitive bids, the eBay service automatically increases bidding in increments based upon the then current highest bid for the item, up to the bidder's maximum price. As eBay encourages direct interaction between buyers and sellers, bidders wishing additional information about a listed item can contact the seller through email functionality. eBay believes that this interaction between bidders and sellers enhances the personal, one-on-one nature of trading on the Web and is art important element of the eBay experience. Once each bid is made, eBay sends a confirmation to the bidder via email, an outbid notice to the next highest bidder and automatically updates the item's auction status. During the course of the sale, eBay notifies bidders immediately via email if they are outbid. Bidders are not charged for making bids or purchases through eBay. In addition, buyers can also specify items of interest on a service called "Favorite Searches" (previously called "Personal Shopper") and receive automated email messages when these particular items are available for sale on eBay. In November 2000, eBay implemented the "Buy it Now" feature. Sellers can choose to use the Buy It Now feature at the time of listing, which allows sellers to name a price at which they would be willing to sell the item to any buyer. Listings are

run in the normal auction format, but will also feature a Buy It Now icon and price. Until the first bid is placed, or in the case of a reserve auction, until the reserve price is met, buyers have the option to buy the item instantly al the specified price without waiting for the listing to end.

Selling on eBay. Sellers registered with eBay can list a produet for sale by completing a short online form or using "Mr. Lister," "Auction Assistant" or third party tools that facilitate the listing of multiple items. The seller selects a minimum price for opening bids for the item and chooses whether the sale will last three, five, seven or ten days. Additionally, a seller may select a reserve price for an item, which is the minimum price at which the seller is willing to sell the item and is typically higher than the minimum price set for the opening bid. The reserve price is not disclosed to bidders. A seller can elect to sell items in individual item listings or, if he or she has multiple identical items, can elect to hold a "Dutch Auction." For example, an individual wishing to sell 10 identical watches could hold 10 individual auctions or hold a Dutch Auction in which the 10 highest bidders would each receive a watch at the same price and all lower bids would be rejected. To be eligible to hold a Dutch auction, a seller must have a sufficiently high feedback rating and must have been a registered seller for at least 60 days. A seller may also specify that an auction will be a private auction. With this format, bidders' e-mail addresses are not disclosed on the item screen or bidding history screen.

Throughout 2000, sellers generally paid a nominal placement fee to list items for sale—S0.25 for an item listing with a minimum starting price of less than S10.00; S0.50 for a minimum starting price of $10.00 to $24.99; 51.00 for a minimum starting price of 325.00 to $49.99; and S2.00 for a minimum starting price of $50.00 or more. As of January 31, 2001, listing fees were increased as follows—S0.30 for an item listing with a minimum starting price of less than

310.00; S0.55 for a minimum starting price of S10.00 to 524.99; 31.10 for a minimum starting price of S25.00 to $49.99; $2.20 for a minimum starting price of 350.00 to 3199.99; and S3.30 for a minimum starting price of $200 or more. By paying an additional S0.50 for items with a starting price of $0.01 to $24.99 or 51.00 for items with a starting price of 525 or more, sellers can choose to have a reserve selling price, which establishes a minimum level at which they are obligated to sell the item. By paying incremental placement fees, sellers can have items featured in various ways. A seller can highlight his or her item for sale by utilizing a bold font for the item heading for an additional fee of $2.00. A seller with a favorable feedback rating can have his or her auction featured as a "Featured Auction" for 599.95, which allows the seller's item to be rotated on the eBay home page, or as a "Featured Plus!" for $19.95, which allows his or her item to appear in its category Featured Item section and in bidder's search results, and the item may be selected for display in another area—the category index page Featured Items section. A seller can also include a description of the product. In addition, a seller can include a photograph in the item's description if the seller posts the photograph on a website and provides eBay with the appropriate Web address. Items may be showcased in the Gallery section with a catalog of pictures rather than text. A seller who uses a photograph in his or her listing can have this photograph included in the Gallery section for 30.25 or featured in the Gallery section for 319.95. Certain categories of items, including real estate, automobiles and "Premier" have different pricing. A seller can choose to list his or her item with the "List in Two Categories" feature, which gives the item, added visibility by listing it in two separate categories. The charge for "List in Two Categories" is double the insertion and optional feature fees (excluding home page featured). In addition, for $0.10 a seller can choose to list his or her item

for 10 days, the longest available duration. All pricing is subject to change.

How Transactions are Completed. When an auction ends, the eBay system validates if a bid exceeded the minimum price, and the reserve price if one has been set. If the sale was successful, eBay automatically notifies the buyer and seller via email and the buyer and seller can then consummate the transaction independent of eBay. At the time of the email notification, eBay generally charges the seller a success fee equal to 5% of the first $25 of the purchase price, 2.5% of that portion of the purchase price from $25.01 to $1,000, and 1.25% of that portion of the purchase price over $1,000. At no point during the process does eBay take possession of either the item being sold or the buyer's payment for the item. Rather, the buyer and seller must independently arrange for the shipment of and payment for the item, with the buyer typically paying for

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eBay was informed that the inquiry includes an examination of its practices with respect to these transactions. eBay has provided further information in connection with this ongoing inquiry. In order to protect the investigation, the court has ordered that no further public disclosures be made with respect to the matter.

On March 24, 2000, Butterfields received a grand jury subpoena from the Antitrust Division of the Department of Justice requesting documents relating to among other things, changes in Butterfields' seller commissions and buyer premiums and discussions, agreements or understandings with other auction houses, in each case since 1992. eBay believes this request may be related to a publicly reported criminal investigation of auction houses for price fixing. eBay has provided the information requested in the subpoena.

Should these or any other investigations lead to civil or criminal charges against eBay, we would likely be harmed by negative publicity, the costs of litigation, the diversion of management time and other negative effects, even if eBay ultimately prevails eBay's business would suffer if it were not to prevail in any actions like these. Even the process of providing records and information can be expensive, time consuming and result in the diversion of management attention.

A large number of transactions occur on eBay's websites. eBay believes that government regulators have received a substantial number of consumer complaints about eBay which, while small as a percentage of its total transactions, are large in aggregate numbers. As a result, eBay has from time to time been contacted by various foreign, federal, state and local regulatory agencies and been told that they have questions with respect to the adequacy of the steps eBay takes to protect its users from fraud. eBay is likely to receive additional inquiries from regulatory agencies in the future, which may lead to action against it. eBay has responded to all inquiries from regulatory agencies by describing its current and planned antifraud efforts. If one or more of these agencies is not satisfied with eBay's response to current or future inquiries, the resultant investigations and potential fines or other penalties could harm its business.

eBay has provided information to the antitrust division of the Department of Justice in connection with an inquiry into its conduct with respect to "auction aggregators" including our licensing program and our recently settled lawsuit' against Bidder's Edge. Should the division decide to take action against eBay, we would likely be harmed by negative publicity, the costs of the action, possible private antitrust lawsuits, the diversion of management time and effort and penalties we might suffer if we ultimately were not to prevail.

Privacy Policy

eBay believes that issues relating to privacy and the use of personal information relating to Internet users are becoming increasingly important as the Internet; and its commercial use grow. eBay has adopted a detailed privacy policy that outlines how eBay uses information concerning its users and the extent to which other registered eBay users May have access to this information. Users must acknowledge and agree to this policy when registering for the eBay service. eBay does not sell or rent any personally identifiable information about its users to any third party; however, eBay does disclose information to sellers and winning bidders that contains the seller's and winning bidder's name, email address and telephone number. eBay also discloses certain personally identifiable information to its subsidiaries and business partners in connection with the provision of services by these entities. eBay also will disclose customer information in its possession (other than credit card information) to a law enforcement agency or member of the eBay's Verified Rights Owner program that requests this information in connection with a civil, criminal or regulatory investigation. eBay also uses information about its users for internal purposes in order to improve marketing and promotional efforts, to analyze website usage statistically, and to improve content, product offerings and website layout. eBay is a member of the TRUSTe program, a non-profit independent organization that audits websites' privacy statements and audits their adherence thereto.

New and Existing Regulation of the Internet

eBay is subject to the same federal, state and local laws as other companies conducting business on the Internet. Today there art relatively few laws specifically directed towards online services. However, due to the increasing popularity and use of the Internet and online services, many laws relating to the Internet are being debated at the state and

federal levels (both in the U.S. and abroad) and it is possible that laws and regulations will be adopted with respect to the Internet or online services. These laws and regulations could cover issues such as user privacy, freedom of expression, pricing fraud content and quality of products and services, taxation, advertising, intellectual property rights and information security. Applicability to the Internet of existing laws governing issues Sikh property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy is uncertain. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Those laws that do reference the Internet, such as the Digital Millennium Copyright Act, are only beginning to be interpreted by the courts and their applicability and reach are therefore uncertain. In addition, numerous states, including the State of California, where our headquarters is located, have regulations regarding how "auctions" may be conducted ' and the liability of "auctioneers" in conducting such auctions. No final legal determination has been made with respect to the applicability of the California regulations to its business to date and little precedent exists in this area. Several states arc considering imposing these regulations upon us or our users, which could harm our business. In addition, as the nature of the products listed by our users change, we may become subject to new regulatory restrictions.

Several states have proposed legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies. The Federal Trade Commission has also settled several proceedings regarding the manner in which personal information is collected from users and provided to third parties. Changes to existing laws or the passage of new laws intended to address these issues could directly affect the way we do business or

could create uncertainty on the Internet. This could reduce demand for its services, increase the cost of doing business as a result of litigation costs or increased service delivery costs, or otherwise harm our business. In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, foreign jurisdictions may claim that we are required to comply with their laws. For example, a French court has recently ruled that a U.S. website must comply with French laws regarding content. As we have, expanded our international activities, we have become obligated to comply with the laws of the countries in which we operate. Laws regulating Internet companies outside of the United States are in many ways less favorable then those in the United States, giving greater tights to consumers, content owners and users or placing more extensive restrictions on our operations than exist in the U.S. Compliance may be more costly or may require us to change our business practices or restrict its service offerings relative to those in the United States. Our failure to comply with foreign laws could subject eBay to penalties ranging from fines to bans on our ability to offer our services. See "Risk Factors—There are many risks associated with our international operations."

Item 2: *Properties*

On March 1, 2000, eBay entered into a five-year lease for approximately 460,000 square feet of which the online segment occupies approximately 190,000 square feet of general offiee facilities located in San Jose, California. Payments under this lease, which commenced during 2000, are based on a spread over the London Interbank Offering Rate ("LIBOR") applied to the $126.4 million cost of-the facility funded by the lessor. eBay has an option to renew the lease for up to two five-year extensions subject to specific conditions. Under the terms of the lease agreement, eBay was required to place $126.4 million of cash and investment securities as collateral for the term of the lease. The cash and

investment securities are restricted as to their withdrawal from the third party trustee and are classified as long-term restricted cash and investments in the accompanying balance sheet.

eBay entered into two interest rate swaps on June 19 and July 20, 2000, totaling $95 million, to reduce the impact of changes in interest rates on a portion of the floating rate operating lease for our facilities. The interest rate swaps allow eBay to receive floating rate receipts based on LIBOR in exchange for making fixed rate payments which effectively changes the interest rate exposure on our operating lease from a floating rate to a fixed rate on $95 million of the total $126.4 million operating lease.

The online segment leases an additional 140,000 square feet of office space. This office space is primarily for eBay's customer call center in Utah and Half.com's administrative offices in Pennsylvania. Office space for . . .

* * * *

eBay Inc.

NOTES TO COLSOLIDATED FINANCIAL STATEMENTS (Continued)

III Potrero Partners, LLC ("III Potrero") is a limited liability corporation organized in May 1996. 111 Potrero owns several commercial properties located in San Francisco and Los Angeles, which are currently occupied by Butterfields and third parties.

HBJ Partners, LLC ("HBJ") is a limited liability corporation organized in California in September 1996. HBJ owns several commercial properties located in San Francisco, which arc currently occupied by Butterfields and third parties. HBJ also has general partnership interests in 17600 Santa Fe Avenue Partners and 2959 Victoria Street. As of December

31, 2000, ownership interests in the above partnerships were 94% and 85%, respectively.

The aggregate consideration exchanged for the acquisition was 2,654,740 shares of eBay common stock. The acquisition has been accounted for as a pooling of interests. In April 1999, Butterfields withdrew its registration statement for its initial public offering. Accordingly, in the second quarter of 1999, eBay recorded a charge of approximately 52.6 million related to the costs of the withdrawn offering.

alando.de.ag

On June 15, 1999, eBay acquired all of the outstanding stock of alando.dc.ag (''alando''). alando began operations on February 19, 1999 and is Germany's leading online personal trading community. The aggregate consideration exchanged for the acquisition was 632,000 shares of eBay common stock. The acquisition has been accounted for as a pooling of interests.

Half. com

On July 11, 2000, eBay acquired Half.com- Half.com was incorporated in Pennsylvania in June 1999 and provides a filed-price, person-to-person e-commerce site that allows people to buy and sell previously owned goods at discounted prices.

In connection with the merger, eBay issued, or reserved for issuance, a total of approximately 5,484,000 shares of eBay common stock to Halicom's existing shareholders, option holders and warrant holden as consideration for all shares of capital stock, options and warrants of Hallcomheld immediately prior to consummation of the merger. The merger has been accounted for as a pooling-of-interests.

The results of operations previously reported by eBay and Half.com are summarized as follows (in thousands):

	Six Months Ended June 30,		Year Ended December 31,
	1999	2000	1999
Net revenues:			
eBay	$92,289	$183,152	$224,724
Half.com		867	
	$92,289	$184,019	$224,724
Net income (loss):			
eBay	$ 4,581	$ 17,871	$ 12,828
Half.com		(8,661)	(1,261)
	$ 4,581	$ 9,210	$ 11,567

There were no adjustments required to comform the accounting policies of Half-com to those of eBay.

See Subsequent Events—Note 16.

* * * *

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September30, 2002. or

TRANSITION REPORT PURSUANT TO SECTION 13 OR15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission file number 000-24821

eBay Inc.

(Exact name of registrant as specified in its charter)

Delaware	77-0430924
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2145 Hamilton Avenue	95125
San Jose, California	(Zip Code)

(Address of principal executive offices)

(408)376-7400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90days.

Yes No

As of October 31, 2002, there were 308,732,085 shares of the registrant's common stock, $0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

* * * *

eBay Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—The Company and Summary of Significant Accounting Policies:

The Company

eBay Inc. was incorporated in California in May 1996, and reincorporated in Delaware in April 1998. As of September30, 2002, we operated websites localized for the United States, Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, the Netherlands, New Zealand, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. We pioneered online trading by developing a Web-based community in which buyers and sellers are brought together to buy and sell almost anything. The eBay online marketplace permits sellers to list items for sale, buyers to immediately purchase or bid on items of interest, and all eBay users to browse through listed items in a fully-automated, topically-arranged service that is available online seven days a week.

On October3, 2002, we completed our acquisition ofPayPal, Inc. in a tax-free, stock-for-stock transaction. PayPal provides a global payments platform and is headquartered in Mountain View, California. The PayPal financial statements will be included in our consolidated financial statements effective with the October3, 2002 acquisition date.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make mates and assumptions that

affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation and Basis of Presentation

The accompanying condensed consolidated financial statements as of December31, 2001 and September 30, 2002, and for the three and nine months ended September 30, 2001 and 2002, are unaudited. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly our financial position, as of September30, 2002, and our results of operations and cash flows for the three and nine months ended September30, 2001 and 2002, respectively. These condensed consolidated financial statements and related notes should be read in conjunction with our audited consolidated financial statements and related notes included in our 2001 Annual Report on Form10-K as filed with the Securities and Exchange Commission on March25, 2002. Our balance sheet as of December31, 2001, was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. Our results for the three and nine months ended September30, 2002 are not necessarily indicative of the expected results for any other interim period or the year ending December31, 2002. The accompanying condensed consolidated financial statements include the accounts of eBay and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period balances have been reclassified to conform to the current period presentation.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No.141 and No.142, Business Combinations and Goodwill and Other Intangible Assets. SFAS No.141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Under SFAS No.142, goodwill is no longer subject to amortization . . . .

* * * *

LICENSE AGREEMENT

By

And

Between

MERCEXCHANGE, LLC

And

AUTOTRADER.COM, INC.

This LICENSE AGREEMENT, (hereinafter the "Agreement") is entered into this 20th day of December 2002 (the "Effective Date") by and between

MercExchange LLC, ("MercExchange" or the Licensor")
a Virginia Limited Liability Company,
having a principal place of business at
9124 Potomac Ridge Road,
Great Falls, Virginia 22066;

and

AutoTrader.com, LLC, ("ATC" or the "Licensee"), a
Delaware Limited Liability Company, having, a principal
place of business at
5775 Peachtree Dunwoody Road
Suite A-200
Atlanta, GA 30342

RECITALS

WHEREAS, Licensee provides an online motor vehicle listing service; and

WHEREAS, Licensor holds certain patents and patent applications relating, among other things, to the operation of online auction-style services; and

WHEREAS, Licensor desires to grant Licensee a license to the Subject Patents and to transfer Licensor Technology to Licensee subject to the terms and conditions as set forth herein;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants contained herein, the parties hereby agree to the following terms and conditions.

ARTICLE I
DEFINITIONS

1.1 The term "Calendar Quarter" means any period of three consecutive months beginning on January 1, April 1, July 1, or October 1 in any calendar year.

1.2 The term "Calendar Year" means the ATC fiscal year, which currently runs from January 1 through December 31.

1.3 The term "Field of Use" means motor-vehicle related commerce and marketing, including listing, marketing, offering for sale, and/or sale of motor vehicles (including cars, vans, SUVs, trucks, motorcycles, RVs, watercraft, aircraft, etc.) and related parts, accessories, and services, it being understood that the Field of Use does not include toy cars, radio-controlled toy cars, Matchbox cars, and the like.

1.4 The term "Listing Fees" means the gross fees derived and actually collected in the applicable Calendar Quarter by Licensee from the sale of listings of motor vehicles to be sold via an auction-style mechanism offered through Licensee's website, currently located at www.autotradercom, or any successor to such website (owned by Licensee or its successor(s)), or through any co-branded or private label version of such services or website, net only of bad debt written off, credits issued, commissions paid by Licensee to

sales representatives, and taxes collected, if any. Listing Fees include basic listing fees, premium placement fees, final value or success fees, if any, and the like, but will not include fees paid for ancillary goods or services such as loans, inspections, warranties, insurance, and the like.

1.5 The term "Subject Patents," as used in this Agreement, shall mean all of Licensor's issued patents and all patents that issue from any of Licensor's pending patent applications; any patents that may issue from continuations, continuations-in-part or divisional applications that claim priority from any of these; any reexaminations and reissues of such patents; and any foreign counterparts of any of these, including, without limiting the generality of the foregoing, the following (issued patents in bold):

A. U.S. Patent Application No. 08/427,820, Entitled "Consignment Nodes";

B. U.S. Patent Application No. 08/554,704, Entitled "Consignment Nodes," Now U.S. Patent No. 5,845,265;

C. U.S. Patent Application No. 09/203,286 (Petition for Interference with U.S. Patent No. 5,794,207) Entitled "Consignment Nodes";

D. U.S. Patent Application No. 09/166,779, Entitled "Method and Apparatus for Facilitate Internet Commerce with Binding Offers to Sell and Binding Counter-Offers to Buy in an Electronic Market";

E. U.S. Patent Application No. 09/253,014, Entitled "Method and Apparatus for Facilitating Electronic Commerce Through Internet Auctions";

F. U.S. Patent Application No. 09/253,021, Entitled "Method and Apparatus for Facilitating Internet Commerce Through Inter-networked Markets and Auctions," now U.S. Patent No. 6,202,051;

G. U.S. Patent Application No. 09/253,015, Entitled "Methods and Apparatus for Automatically Distributing, Internet Advertising";

H. U.S. Patent Application No. 09/253,057, Entitled "Method and Apparatus for Facilitating Electronic Commerce Through Two-Tiered Electronic Markets and Auctions," Now U.S. Patent No. 6,266,651 (the "651 Patent");

I. U.S. Patent Application No. 09/264,573, Entitled "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items," Now U.S. Patent No. 6,085,176;

J. U.S. Patent Application No. 09/670,651, Entitled "System for Facilitating Electronic Commerce Transactions";

K. U.S. Patent Application No. 09/670,652, Entitled "System for Facilitating Commerce at an Internet-Based Auction";

L. U.S. Patent Application No. 09/556,653, Entitled "Monitoring Electronic Auctions for Desired Goods or Services";

M. U.S. Patent Application No. 09/557,617, Entitled "Consignment Nodes";

N. U.S. Patent Application No. 09/644,857, Entitled "Consignment Nodes"; and

O. U.S. Patent Application No. 09/418,564, Entitled "Consignment Nodes."

1.5.1 The term "Core Patents" means all of the Subject Patents except for the '651 Patent and patents the United States Patent Office ora foreign patent office requires to be co-terminus with the '651 Patent to obviate a .double-patenting rejection (the "'651 Subject Matter").

ARTICLE II
LICENSE

2.1 License Grant. Licensor hereby grants to Licensee, during the Term of this Agreement, a world wide, non-exclusive license, with right of sublicense (under Section 5.5 only), to the Subject Patents within the Field of Use (the "License"). The License will pertain to all activities of ATC within the Field of Use, and to any person or entity conducting activities within the Field of Use for ATC's benefit, or on or through ATC's website (currently located at www.auto trader.com), or any successor website, or through any co-branded or private label version of such website, or through any website, or portion of a website, operated by ATC for the benefit of a third party (where ATC is acting as provider of a platform for online services, whether as service bureau, application service provider, or otherwise). All rights not expressly granted hereunder are retained by Licensor.

2.2 License Grant Runs with the Subject Patents. The License granted under this Agreement will run with the Subject Patents, such that it will remain valid and fully enforceable in the event that the Subject Patent(s), or any of them, or MercExchange itself, is acquired by another entity.

ARTICLE

ISSUE FEE, ROYALTIES AND RECORDS

3.1 Issue Fee. Licensee shall pay Licensor a one time non-refundable license issue fee of 5450,000.00 within 5 business days after the Effective Date of this Agreement.

3.2 Royalties for Core Patents. In consideration of the grant of the License to the Core Patents, Licensee will pay Licensor an ongoing royalty, calculated as described below, if and only if the conditions described below are met:

3.2.1 If Licensor, through enforcement of its rights to the Subject Patents, obtains a judicial injunction that prohibits eBay, Inc. from operating within the Field of Use, then, and only then, ATC will pay Merc-Exchange ongoing royalties, quarterly during the life of any Subject Patent that would be infringed by ATC's auction-related activities but for the License granted under this Agreement, but only during the time the injunction is in force, during any Calendar Year in which ATC's Annual Listing Fees exceed 512 million (the "Ongoing Royalties"). The Ongoing Royalties will be calculated as follows:

Royalty Schedule

Royalty Rate	Annual Listing Fees
0%	of annual License Fees up to $ 12 million
2.5%	of annual License Fees between $12 million and $24 million
5%	of annual Listing Fees between $24 million and $48 million
7.5%	of annual Listing Fees in excess of $48 million

3.2.2 If the annual Listing Fees collected by ATC exceed the applicable threshold during any given Calendar Year, but the injunction referenced in Section 3.2.1, above, remains in effect only during a portion of such Calendar Year, then the Ongoing Royalties due Licensor during such Calendar year will be pro rated

based on the number of days during which the injunction remains in effect.

3.3 Royalties for '651 Subject Matter. The parties understand that Licensee does not need a license to the '651 Subject Matter to operate the auction-style listing service that it is currently contemplating (as reflected in Exhibit A). However, should Licensee alter the operation of its auction-style listing service, such that Licensor forms the good-faith judgment that Licensee is practicing the '651 Subject Matter, then Licensor will give Licensee notice that it believes that Licensee is practicing the '651 Subject Matter. Within 30 days after Licensee receives such notice, the parties will meet at a mutually convenient location to discuss, in good faith, whether Licensee is, in fact, practicing the '651 Subject Matter. If the parties conclude, in good faith, that Licensee is practicing the '651 Subject Matter, then Licensee will pay Licensor an ongoing royalty (the "'651 Royalty"), calculated according to the Royalty Schedule set out above, without regard to whether Licensor has obtained an injunction against eBay, as described in Section provided, however, (a) that the '651 Royalty will be calculated not on annual Listing Fees, but only on the portion of annual Listing Fees derived from the sale of auction-style listings that require Licensee to practice the '651 Subject Matter, and (b) that any '651 Royalties paid to Licensor will be credited against any Ongoing Royalties otherwise due Licensor such that Licensee will not, under any circumstances, be making duplicative ongoing royalty payments based on the same listing revenue.

3.4 Most Favored Status. In the event Licensor grants a license under one or more of the Subject Patents to another party which Licensee regards as more

favorable than the license granted herein, Licensee shall have the right to a license under such more favorable terms, within the Field of Use (from the effective date of such other license going forward), provided that Licensee agrees to accept all reasonably applicable other terms and conditions of such other license. For purposes of permitting Licensee to evaluate whether to accept such other license in lieu of the License granted under this Agreement, Licensor shall provide copies of such other license agreements, promptly upon their execution (but without penalty if delay is inadvertent), to outside counsel for Licensee, who agrees to maintain the same in confidence and to use the same solely for purposes of advising Licensee on whether to exercise its rights under this Section.

3.5 Reporting. As soon as Licensee's Listing Fees exceed $ 12 million on an annualized basis during any Calendar Quarter, Licensee shall send to Licensor reports of the Listing Fees within thirty (30) days following the end of each Calendar Quarter.

3.6 Payment. Each report shall be accompanied by the required payment in U.S. Dollars. For the purpose of calculating the royalties payable hereunder, respective currencies of the Listing Fees shall be converted to U.S. Dollars at the rate of exchange quoted in The Wall Street Journal in force on the last working day of the Calendar Quarter reporting period.

3.7 Record Keeping; Inspection & Audit. Licensee shall maintain complete and accurate records of the Listing Fees. These records shall be maintained for a period of at least two (2) years subsequent to Licensee's latest royalty report. Until such time as Licensee becomes obligated to provide quarterly reports to Licensor under Section 3.5, above, Licensee will provide, within 30 days after receipt of a written request

from Licensor, and not more than once per Calendar Year, a report of all Listing Fees collected by Licensee during the preceding Calendar Year. In addition, periodically during the term of this Agreement and subsequent to the expiration or termination of this Agreement, for any reason, upon 30 days prior written notice to Licensee and upon execution of a Confidentiality Agreement in Licensee's favor, Licensor's independent duly appointed Certified Public Accountant may inspect and/or audit Licensee's records that pertain to the Listing Fees during regular business hours for the purpose of verifying the completeness and accuracy of all reports to Licensor. Such inspection shall occur no more frequently than once per Calendar Year. If said audit determines that there has been a shortfall in royalties paid to Licensor in excess of five percent (5%) of the amount actually due for the period under audit, then Licensee shall reimburse Licensor for the reasonable expenses actually incurred by Licensor for the audit.

ARTICLE IV
ENFORCEMENT

4.1 Right to Enforce Subject Patents. Licensor will vigorously enforce the Subject Patents against infringers.

4.2 Should Licensee become aware of any infringement or alleged infringement of any Subject Patent, the Licensee will notify the Licensor in writing of the name and address of alleged infringer, the alleged acts of infringement, and any evidence of infringement of which Licensee is aware. Within 30 days of receipt of such notice, Licensor will advise Licensee whether Licensor will pursue legal action against such infringer. If Licensor advises Licensee that it will pursue legal action against such infringer, Licensor

will commence such action with 30 days of so advising Licensee (unless the parties mutually agree that it would be advantageous to delay commencement of such action). Licensee will cooperate fully in the prosecution of such action. Licensor will bear all costs of pursuing any action it commences (excluding costs, such as attorneys' fees, incurred by Licensee in cooperating with Licensor in the prosecution of such action). If Licensor advises Licensee that it will not pursue legal action against the infringer, then Licensor hereby empowers Licensee to commence such action itself. Licensor consents to be joined as a party to such action, will take all steps reasonably necessary to ensure that Licensee has the standing necessary to prosecute such action, and will cooperate fully in the investigation and prosecution of such claims. If Licensee elects, in its discretion, to pursue any such action, Licensee will bear all costs of pursuing such action (excluding costs, such as attorneys' fees, incurred by Licensor in cooperating with Licensee in the prosecution of such action).

4.3 Licensor will retain any damages it recovers in any action it commences against an infringer, save only damages intended to compensate for injury to Licensee which damages Licensor will remit to Licensee (after recouping its cost, including attorneys' fees, of prosecuting the action).

4.4 Licensee will share with Licensor (on a 50/50 basis) any damages it recovers in any action it commences against an infringer, save only damages intended to compensate for injury to Licensee (which damages will be retained by Licensee); provided, however, that before sharing any recovery with Licensor, Licensee may deduct its cost of prosecuting the action, including attorneys' fees, as well as the issue fee paid

to Licensor under Section 3.1 and any Ongoing Royalties and/or '651 Royalties paid to Licensor to that date under Section 3.2 and/or 3.3.

4.5 The rights and obligations established under this Article IV do not apply to any litigation commenced prior to the Effective Date of this Agreement.

ARTICLE V
OTHER PROVISIONS

5.1 Term. This Agreement, unless earlier terminated as provided under this Agreement, shall remain in full force and effect until the last claim of any Subject Patent expires or is declared invalid or unenforceeable and all appeals or administrative proceedings are final and non-appealable.

5.2 Termination for Cause.

5.2.1 If Licensor believes that Licensee has materially breached any of its obligations under this Agreement, Licensor shall promptly notify Licensee of said breach in writing, stating the nature of Licensee's breach with reasonable particularity. If Licensee fails to adequately correct such breach within twenty (20) days from the effective date of the written notice, Licensor may terminate this Agreement and the License granted hereunder by providing twenty (20) days' written notification of termination to Licensee.

5.22 Licensor may terminate this Agreement if Licensee attempts to transfer, asssign, or sublicense the Subject Patents in knowing violation of this Agreement; or if Licensee challenges or knowingly and voluntarily assists any third party in challenging the validity, enforceability or scope of the Subject Patents.

5.2.3 On notice of the termination of this Agreement, the License and rights granted in this Agreement shall

immediately revert to Licensor with no further step or action at law or equity required by Licensor. In no event shall termination of this License require Licensor to refund to Licensee payments previously made by Licensee under Article HI.

5.3 Termination by Licensee. This Agreement may be terminated by Licensee at any time with 15 days written notice to Licensor, provided, however, that in no event shall termination of this License require Licensor to refund to Licensee payments previously made by Licensee under Article III.

5.4 No Joint Venture. The relationship between the parties shall be limited to performance of their respective obligations as set forth in this Agreement. Nothing in this Agreement shall be construed to create a partnership or joint venture between the parties or to authorize either party to act as general agent for the other party, or to permit either party to restrain or otherwise bind the other party. No party shall be liable for any of the actions, omissions, or indebtedness of the other party.

5.5 Assignability and Sublicense Rights.

5.5.1 This License Agreement may be assigned by Licensee in connection with the sale of all or substantially all of its assets.

5.5.2 Licensor shall have the right to assign or otherwise transfer the Subject Patents to any third party. Licensor's rights to receive payments from Licensee under this Agreement may be assigned together with the Subject Patents. Such assignment or transfer shall not be deemed effective unless such assignee or transferee has agreed in writing to be bound by the terms and provisions of this Agreement.

5.5.3 Licensee shall be free to grant a sublicense to the Subject Patents, or any of them, within the Field of Use, to any ATC Affiliate, any one or more of the following entities (Licensee's parent companies), and/or any one or more Affiliates of each of these: ADP, Inc. (a Delaware Corporation); AutoTrader Holdings, Inc. (a Nevada Corporation, and subsidiary of Landmark Communications, Inc.); KPCB Holdings, Inc. a Kleiner, Perkins company); LTM Company, L.P. (a Virginia limited partnership, and subsidiary of Landmark Communications, Inc., through which Landmark holds its interest in Trader Publishing Company); Manheim ATC, Inc. (a Delaware corporation, and subsidiary of Cox Enterprises, Inc.); and TPI, Inc. (a Delaware corporation, and subsidiary of Cox Enterprises, Inc. through which Cox holds its interest in Trader Publishing Company) (each, a "Sublicensee"). No Sublicensee shall have the right to assign the license grant or to further sublicense the license grant.

5.5.3.1 For purposes of this Section 5.5, an "Affiliate" shall mean any corporation, firm, limited liability company, partnership or other entity that directly or indirectly controls or is controlled by or is under common control with any of the entities identified in Section 5.5.3, above. "Control" means ownership, directly or through one or more Affiliates, of 50 percent or more of the shares of stock entitled to vote for the election of directors, in the case of a corporation, or 50 percent or more of the equity interests in the case of any other type of legal entity, status as a general partner in any partnership, or any other arrangement whereby a party controls or has the right to control the board of directors or equivalent governing body of a corporation or other entity. Whether a given entity is an Affiliate for purposes of this Section 5.5.3 will be

determined at the time of the proposed sublicense; provided, however, that Licensee will not a have a right to sublicense the Subject Patents to eBay, Inc., Amazon, Inc., Yahoo, Inc., or America Online, Inc. (AOL) even if ATC, or one of the entities identified in Section 5.5.3, above, were to acquire a controlling interest in one of these companies.

5.5.3.2 Prohibited Sublicensees and Assignees. Regardless of any other provision of this Agreement, Licensee may not assign, sublicense, or grant the License granted under this Agreement or any other right to the Subject Patents, without the prior written approval of Licensor, to eBay, Inc., Amazon, Inc., Yahoo, Inc., or America Online, Inc. (AOL). Licensor's approval may be withheld for any reason or no reason at all.

5.5.4 The terms and conditions of any such sublicense, including the amount of any issue fee and/or any ongoing royalty, shall be determined by Licensee, in its discretion. However, Licensee agrees to share with Licensor, on the following basis, any issue fee or royalty fee it receives from sublicensing the Subject Patents to one or more of the Sublicensees (collectively, the "Sublicense Fees"):

5.5.4.1 Until such time, if any, as ATC has recouped, through the collection of the Sublicense Fees, the issue fee Licensee paid to Licensor under Section 3.1 and any Ongoing Royalties and/or '651 Royalties paid to Licensor to that date, ATC will pay Licensor twenty-five percent (25%) of each Sublicense Fee it collects (net of all costs, including attorneys' fees, incurred in furtherance of the applicable sublicense(s)). Thereafter, ATC will pay Licensor fifty percent (50%) of each Sublicense Fee it collects (net of all costs, including attorneys' fees, incurred in furtherance of the applicable sublicense(s)). ATC's reporting, pay-

ment, record keeping, inspection, and audit obligations with respect to the Sublicense Fees will be the same as its obligations with respect to the royalties to be paid directly by ATC to Licensor under Sections 3.5, 3.6, and 3.7, above.

5.6 No Implied License. Nothing contained in this Agreement shall be construed as granting by implication, estoppel or otherwise, any licenses, warranties (implied in fact or law) or rights other than those expressly granted herein, or creating any obligation other than those expressly granted herein.

5.7 Warranties by Licensor. Licensor represents and warrants to Licensee that as of the Effective Date hereof:

(a) Licensee does not need any license or right which is held by Licensor not already provided under this Agreement, that is necessary or useful for Licensee to operate an online auction-style service within the Field of Use.

(b) Licensor has reviewed the draft business plan for Licensee's auction-style listing service, attached hereto as Exhibit A. To Licensor's knowledge, based on Licensor's review of such business plan, and otherwise, the rights granted to Licensee under the license granted hereunder to the Core Patents are sufficient to enable Licensee to operate the contemplated online auction-style service, within the Field of Use.

(c) Licensor has the right to license the rights licensed and granted to Licensee in and to the Subject Patents under this Agreement without violating the terms of any agreement or arrangement to which Licensor is a party. Nothing in this Agreement shall be construed as a warranty or representation by Licensor or Licensee as to the validity or scope of the Subject Patents.

5.8 Indemnification. Licensor will indemnify Licensee against any costs incurred by Licensee as a result of any action on the part of Licensor a reasonably foreseeable consequence of which is the involvement of Licensee in litigation over the validity or infringement of the Subject Patents, whether as a party or as a non-party witness; provided, however, that such indemnification obligation will not exceed the amount of the issue fee paid by Licensee under Section 3.1, above, and any Ongoing Royalties and '651 Royalties paid to Licensor on or before the date the applicable indemnification payment is made. Licensor will further indemnify Licensee against costs (including reasonable attorneys' fees) incurred by it as a result of a breach by Licensor of any of its representations and warranties in this Agreement.

5.9 Notification. The parties shall notify each other in writing, by certified mail, at the following address, which may be amended from time to time upon written notification:

Licensor:

Thomas G. Woolston
Managing Member
MercExchange, LLC
9124 Potomac Ridge Road
Great Falls, Virginia 22066

Licensee:

Jim McKnight
Chief Operating Officer
AutoTrader.com, LLC
5775 Peachtree Dunwoody Drive
Suite A 200
Atlanta, GA 30342

With a copy to:

Jonathan D. Hart
Dow, Lohnes Albertson, PLLC
1200 New Hampshire Avenue, N.W.
Washington, DC 20036

5.10 Controlling Law. This Agreement shall be construed and enforced in accordance with, and shall be governed by, the laws of the State of Georgia without giving effect to the provision, policies, or principles thereof relating to choice or conflict of laws.

5.11 Severability. Any provision of this Agreement that is illegal, invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

5.12 Waiver. The failure of any party to enforce any provision of this Agreement, or to assert any rights with respect thereto, shall not be considered a waiver thereof or in any way affect the validity of this Agreement. The failure by any party hereto to enforce any of said provisions, rights or elections shall not prejudice said party from later enforcing or exercising the same or any other provisions, rights, of elections which it may have under this Agreement.

5.13 Integration. This Agreement contains the entire and only understanding between the parties with respect to the subject matter hereof, and supersedes all prior agreements and understandings, whether oral or written, with respect thereto. No modification or wavier of this Agreement or any of its provisions shall be binding unless in writing and signed by a duly authorized representative of each of the parties hereto.

5.14 Bankruptcy or Liquidation. The Agreement is terminable upon notice by either party in the event of the bankruptcy of the other party or the liquidation of the other party's assets.

5.15 Non-refundable. Any and all fees, payments, or royalties, made under this Agreement are non-refundable.

5.16 Headings. Headings in this Agreement are for organizational purposes only and shall not be read into the terms of this Agreement.

5.17 Marking. Licensee shall provide notice under the appropriate legal notices section of its website that the "Certain Operations of this website and the services provided by AutoTrader.com [or its successor or assignee, as appropriate] are licensed under U.S. Patent Nos. 5,845,265; 6,085,176; and 6,202,051 and pending patents."

5.18 Authority. Each of the parties entering into this Agreement represents and warrants it has full power and authority to enter into this Agreement and to perform all transactions, duties and obligations set forth herein. Each party further represents that it has had the opportunity to review the terms and conditions hereof with legal counsel. Each signatory to this Agreement on behalf of a party represents and warrants that he has the authority to execute this Agreement on behalf of that party.

5.19 Confidential. The terms of the Agreement and the details of the relationship established under the Agreement will be kept confidential unless the parties mutually agree otherwise. Notwithstanding the foregoing, Licensor may disclose the fact of this license relationship and the economic terms of the Agreement in the context of any litigation in which it may be involved to enforce its rights under the Subject Patents

or any of them and Licensee may disclose the fact of this license relationship and the economic terms of the Agreement in the context of any patent-related litigation in which it may become involved. Notwithstanding any of the foregoing, under no circumstances will Licensor disclose to any third party any of the contents of Exhibit A. The parties will diseuss in good faith the timing and content of a press release announcing that Licensee has taken a license from Licensor, but neither party will issue any such press release or other public statement about the relationship established under this Agreement without the prior written approval of the other party, both as to timing and content.

5.20 Nothing in the Agreement is to be construed as an admission by ATC that the Subject Patents are valid, enforceable, or infringed by any activity engaged in or contemplated by ATC.

5.21 Binding Agreement. This Agreement shall be binding not only upon the parties hereto, but also upon their assignees, successors, heirs, divisions, subsidiaries, officers, directors and employees.

5.22 Force Majeure. There shall be no liability on either party on account of any loss, damage, or delay occasioned or caused by strikes, riots, fires, insurrection, embargoes, failure of carriers, acts of God or of the public enemy, compliance with any law, regulation or other governmental order, or any other causes beyond the control of either party, whether or not similar to the foregoing.

5.23 Expenses. Except as provided elsewhere in this Agreement, all of the legal, accounting, and other miscellaneous expenses incurred in connection with this Agreement and the performance of the various

provisions of this Agreement shall be paid by the party who incurred the expense.

5.24 Execution in Counterparts. This Agreement may be executed in counterparts, all of which together constitute an original.

This Agreement is entered into as of the date and year first above written.

MercExchange, LLC	AutoTrader.com, LLC
By /s/ Thomas G. Woolston	By /s/ Jim McKnight
Managing Member	Chief OperatingOfficer

LICENSE AGREEMENT
By and Between
Aden Enterprises, Inc. and
MercExchange, LLC

THIS LICENSE AGREEMENT, (hereinafter the "Agreement") is entered into this 28th day of October, 1999 by and between Aden Enterprises, Inc., a California corporation ("Aden" or the "Company"), having a principal place of business at 13314 I Street, Omaha, Nebraska 68137 and MercExchange, LLC, ("MercExchange") a Delaware corporation with a principal place ofbusiness at 110 S. Payne Street, Alexandria, VA 22314. This Agreement supersedes and replaces in all respects the Agreement entered into by the parties dated January 19, 1999.

RECITALS

WHEREAS, Aden is embarking on a major development and industry initiative to build and deploy Internet Markets and Auctions that employ the pending and issued Subject Patents. Aden agrees that patent protection provides an important commercial advantage and agrees to consult and confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Internet Markets and Auctions and the claims of the pending and issued Subject Patents.

WHEREAS, MercExchange desires to license the pending and issued Subject Patents subject to the terms and conditions as set forth herein.

NOW, THEREFORE, in consideration of the promises and of the mutual covenants contained herein, the parties hereby agree as follows:

Capital terms as used herein are defined in the Definition Section Below:

ARTICLE I
LICENSE TO ONLINE TRAVEL SECTOR

1.1 License. MercExchange hereby grants to Aden, during the Term of this Agreement, an exclusive License Grant to make, use and sell products and services that use the inventions disclosed and claimed in the pending and issued Subject Patents within field of use of the Online Travel Sector.

1.2. Nexus. Aden shall use best efforts to develop Internet Markets and Auctions that employ the pending and issued Subject Patents for use in the Online Travel Sector. Aden shall confer with MercExchange to assure a tight nexus between the commercial embodiment of the aforesaid Internet Markets and Auctions with the claims of the pending and issued Subject Patents.

1.3 Legal Fees. Aden shall pay all reasonable legal and administrative fees associated with the continuing prosecution and maintenance ofthe Subject Patents before the U.S. Patent and Trademark Office. Aden shall also pay all legal, administrative and filing fees associated with any Interference proceeding before the U.S. Patent and Trademark Office and any related litigation in Federal or State Court. The parties shall confer on strategies concerning the prosecution, enforcement and exploitation of the Subject Patents.

1.4 Warrants. Aden hereby grants 53 million warrants exercisable at .001 (U.S.D.) per share of restricted common stock in Aden Enterprises, Inc. exercisable on or before October 31, 2001. If at any time and from time to time after the date hereof, the Company files a Registration Statement under the Securities Act of 1933, as amended, with respect to any offering of any equity securities by the Company for its own account or for the account of any of its equity holders (other than (i) a registration on Form S-4 or S-8 or any successor form to such Forms or (ii) any registration of securities as it relates to an offering and sale to management of the Company

pursuant to any employee stock plan or other employee benefit plan, arrangement) then; as soon as practicable (but in no event less than ten days prior to the proposed date of filing such Registration Statement), the Company shall give written notice of such proposed filing to MercExchange, and such notice shall offer MercExchange the opportunity to register such number of Registrable Securities as MercExchange may request.

1.5 Aden hereby purchases 10% (ten percent) ownership of MercExchange in consideration of two notes in a total amount of $4 million, said notes payable by wire transfer wherein the first note in the amount of $1 million shall be due and paid within thirty (30) days of the effective date of this Agreement, the second note in the amount of 53 million shall be due and paid within one hundred twenty (120) days of the effective date of this Agreement. MercExchange hereby grants an option for Aden to purchase an additional 5% of MercExchange for 53,000,000 within two years of the effective date of this Agreement.

ARTICLE H
VERTICAL SECTOR LICENSE OPTION

2.1 The parties anticipate application of the aforesaid Markets and. Auctions developed under Article I of this Agreement to commercial sectors outside the Online Travel Sector. The parties hereby mutually agree to the following terms and conditions regarding these additional Vertical Sectors.

2.2 MercExchange hereby grants an option to the Company to a non-exclusive license for the pending and issued Subject Patents to additional Vertical Sectors. For each Vertical Sector the Company shall pay MercExchange an annual payment of the greater of (1) the first $50,000 of any fees collected by the Company from a third party or (2) a 1.5% (one point five percent) continuing royalty of Gross Trans-

actions generated by said Additional Vertical Sector. In the event of a joint venture, marketing agreement, acquisition or any other business combination between the Company and a third party, the Company and MercExchange shall negotiate an equity position for MercExchange in said venture, in no event shall this equity position be less that 15% (fifteen percent) on a fully diluted basis of said venture for MercExchange.

ARTICLE III
NON-MONETARY REMUNERATION

3.1 If the Subject Patents are licensed to third parties and MercExchange receives non-monetary remuneration for said license, including but not limited to, web easements, discounted or free advertisement and linking agreements, then the Company shall purchase in cash or equity said non-monetary remunerative benefit from MercExchange at one-third the fair market value for said non-monetary remunerate benefit within 60 days of the written offer of said non-monetary remuneration from MercExchange to the Company.

ARTICLE IV
ENFORCEMENT

4.1 Right to Enforce Within The Online Travel Sector. MercExchange hereby assigns a nonexclusive right to the Company to enforce the Subject Patents, in its own name, and at its own expense, in the Online Travel Sector. MercExchange agrees to cooperate and join in said enforcement action if deemed a necessary parry and enter into all further agreements necessary to enforce the Subject Patents. The Company shall reimburse MercExchange for expenses incurred by MercExchange under this section 4.1. Nothing in this section 4.1 shall confer any rights on the Company that prevents MercExchange from enforcing or continuing to enforce the Subject Patents in the name of MercExchange. If any right granted in this section 4.1 is construed so as to

prevent MercExchange from enforcing the subject Patents in the name of MercExchange against any third party then this section 4.1 shall be null and void.

4.2 Right to Recovery. The Company and MercExchange shall split 50/50 any recovery of damages or license fees relating to any such recovery in the Online Travel Sector.

4.3 Right to Enforce Subject Patents. MercExchange retains the right to enforce and control the enforcement of the Subject Patents against third parties. The Company agrees to cooperate and join in said enforcement action if deemed a necessary party.

4.4 Non-Monetary Recovery. In any enforcement proceeding to which MercExchange or the Company enjoins a third party, the Company and MercExchange shall mutually determine the value of said injunction to the Company. The Company shall pay MercExchange 25% of the value of said injunction, in cash or equity.

ARTICLE V
DEFINITIONS

5.1 Definitions. For the purpose of this Agreement only, the following terms shall have the meanings indicated:

5.1.1 The term "Subject Patents" means the following patent applications and all continuing patent applications that seek priority from:

A. U.S. Patent Application No. 08/427,820, Entitled: "Consignment Nodes"

B. U.S. Patent Application No. 08/554,704, Now U.S. Patent No. 5,845,265, Entitled: "Consignment Nodes"

C. U.S. Patent Application No. 09/203,286 (Petition for Interference with U.S. Patent No. 5,794,207) Entitled: "Consignment Nodes"

D. U.S. Patent Application No. 09/166,779, Entitled "Method and Apparatus for Facilitate Internet Commerce with Binding Offers to Sell and Binding Counter-Offers to Buy in an Electronic Market"

E. U.S. Patent Application No. 09/253,014, Entitled: "Method and Apparatus for Facilitating Electronic Commerce Through Internet Auctions"

F. U.S. Patent Application No.09/253,021, Entitled: "Method and Apparatus for Facilitating Internet Commerce Through Inter-networked Markets and Auctions"

G. U.S. Patent Application No.09/253,015, Entitled: "Methods and Apparatus for Automatically Distributing Internet Advertising"

H. U.S. Patent Application Serial No. 09/253,057, Entitled: "Method and Apparatus for Facilitating Electronic Commerce Through Two-Tiered Electronic Markets and Auctions"

I. U.S. Patent Application Serial No. 09/264,573, Entitled: "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items"

5.1.2 The term "Online Travel Sector" means the right to make, use and sell products and systems and grant access to products and systems directed to the travel service industry including car rental, hotel booking, airline tickets, cruise, rail and travel packages.

5.1.3 The term "Vertical Sector" means industry and service classifications of customary usage and categories of commerce as defined by the United States Department of Commerce eight digit SIC codes.

5.1.4 The term "Reorganization Event" means the corporate act of the Company necessary to authorize the issuance of shares under this Agreement. The Reorganizing Event shall

take place within 60 days of the execution of this Agreement, unless otherwise extended by the parties and the shares shall be tendered forthwith.

5.1.5 The term "Gross Transactions" means the gross transactional fee amount collected or earned by the Company for the operation of said Internet Markets and Auctions. The transactional fee amount for transactions under this Agreement, for the purpose of calculating this amount, shall be based on fee charged, exclusive of any freight, handling, duties, commissions, clearance network costs and taxes.

5.1.6 The term "License Grant" means the right to make, use and sell, sub-license, enforce and collect damages, subject to this Agreement, in the Online Travel Sector. The right to sublicense the Subject Patents does not apply to Priceline.com Incorporated or related entities.

5.1.7 The term "Fiscal Quarter" means any period of three consecutive months beginning on February 1, May 1, August 1, or November 1 in any year.

5.1.8 The term "Contract Year" shall means the first full twelve-month period of four consecutive fiscal quarters, beginning May 1 and ending April 30 and each like period thereafter during the term of this Agreement.

ARTICLE VI
OTHER PROVISIONS

6.1 Termination for Cause. If Aden shall materially breach any of its obligations pursuant to this Agreement and shall fail to adequately correct such breach within (2) months from the effective date of the first written notice to MercExchange prior to the payment of the consideration provided for in Section 1.5 of this Agreement, MercExchange may terminate License pursuant to section 6.7 by written notice. The termination of the license shall immediately cause the License and the membership interest and option in MercExchange to

revert to MercExchange with no further step or action at law or equity required by MercExchange. Upon payment of the consideration set forth in Section 1.5, the rights of Merc-Exchange to terminate for cause shall end.

6.2 No Joint Venture. The relationship between the parties shall be limited to performance of their respective obligations as set forth in this Agreement. Nothing in this Agreement shall be construed to create a partnership or joint venture between the parties or to authorize either party to act as general agent for the other party, or to permit either party to bind of otherwise bind the other party. No party shall be liable for any of the actions, omissions, or indebtedness of the other parry.

6.3 Assignability. Except as otherwise provided herein, the rights and licenses granted by each party to the other in this Agreement are personal to each party and may not be assigned, sub-licensed or otherwise transferred by one party without the prior written consent of the other parry. Except that Aden may assign the rights hereunder to a wholly owned subsidiary without further written consent to MereExchange.

6.4 No Implied License. Nothing contained in this Agreement shall be construed as granting by implication, estoppel or otherwise, any licenses, warranties (implied in fact or law) or rights other than those expressly granted herein, or creating any obligation other than those expressly granted herein.

6.5 MercExchange warrants and represents that the "Subject Patents" are validly issued by and duly and lawfully recorded at the U.S. Patent and Trademark Office. MercExchange further represents that it has full right and authority to grant the license to the Subject Patents granted hereunder and that said license is not in conflict with or constitute a default under any other agreement or license relating to the Subject Patents.

6.6 No Indemnification. MercExchange does not indemnify, warrant or otherwise guarantee or hold harmless Aden from enforcement and/or legal action brought by third parties. MercExchange make no warranties that any products made under this Agreement are materially fit for their purpose or comport with any other provision of the Uniform Commercial Code.

6.7 Notification. The parties shall notify each other in writing at the following address which may be amended from time to time upon written notification:

MercExchange:

Thomas G. Woolston
Managing Member
MercExchange, LLC
110 S. Payne Street
Alexandria, VA 22314

Aden:

Michael S. Luther
Aden Enterprises, Inc.
13314 I Street
Omaha, NE 68137

6.8 This Agreement shall be construed and enforced in accordance with, and shall be governed by the laws of the State of Virginia without giving effect to the provision, policies, or principles thereof relating to choice or conflict of laws.

6.9 Severability. Any provision of this Agreement that is illegal, invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

6.10 Waiver. The Failure of any party to enforce any of the provision of this Agreement , or of any rights with respect thereto, shall not be considered a wavier thereof or in any way affect the validity of this Agreement The Failure by any party hereto to enforce any of said provisions, rights or elections shall not prejudice said party from later enforcing or exercising the same or any other provisions, rights, of elections which it may have under this Agreement

6.11 Integration. This Agreement contains the entire and only understanding between the parties with respect to the subject matter hereof, and supersedes all prior agreement and understandings, whether oral or written, with respect thereto. No modification or wavier of this Agreement or any of its provisions shall be binding unless in writing and signed by a duly authorized representative of each of the parties hereto.

6.12 Bankruptcy or liquidation. The License(s) granted hereunder shall immediately revert to MercExchange if the Company seeks protection under the Bankruptcy laws or is subject to liquidation under the laws of the United States.

6.13 Payments. Aden agrees to pay MercExchange, in addition to the compensation in sections 1.3, 1.4, and 1.5, the sum of 535,000. MercExchange acknowledges receipt of this payment.

6.14 Non-refundable. All funds, payments and distributions made hereunder are non-refundable unless otherwise stipulated in this Agreement.

6.15 Within forty-five (45) days following the end of each Fiscal Quarter, beginning with the first Fiscal Quarter in which Company commences activity in any additional Vertical Sector, Company shall send to MercExchange reports of the Gross Transactions imported or sold by Aden, in the preceding Fiscal Quarter, showing their respective descriptions, total quantities for transaction, and the sale price of any systems licensed hereunder.

6.16 Each report shall be accompanied by the required payment in U.S. Dollars. For the Purpose of calculating the royalties payable hereunder, respective currencies of the Gross Transactions shall be converted to U.S. Dollars at the rate of exchange quoted in The Wall Street Journal in force on the last working day of the period for which payment of royalty is being made.

6.17 The Company shall maintain complete and accurate records of the Gross Transactions manufactured, imported or sold under this Agreement, showing their respective descriptions, model numbers, quantities, and calculations of unit royalties dues and payable thereon. These records shall be maintained for a period of at least three (3) years subsequent to Company's latest quarterly royalty report. Periodically during the term of this Agreement and subsequent to the expiration or termination of this Agreement for any reason, upon 30 days prior written notice to Company and upon execution of a confidentiality Agreement in Company's favor, MercExchange's independent duly appointed Certified Public Accountant may inspect Company's records which pertain to Gross Transactions during regular business hours for the purpose of verifying the completeness and accuracy of all reports to MercExchange. Such inspection shall occur no more frequently than once any Contract Year. If said audit determines that there has been a shortfall in royalties paid to MercExchange in excess of three percent (3%) of the amount actually due for the period under audit, then Company shall reimburse MercExchange for the reasonable expenses actually incurred by it for the audit.

6.18 Headings and section titles are for organization purposes only and shall have no effect on the interpretation of this Agreement.

6.19 All fees payable hereunder, such as legal fees for continuing patent prosecution, shall be tendered by the Company within thirty (30) days of receipt of notice from MercExchange.

6.20 Remedy for Breach. If the Company materially breaches any condition of this Agreement and does not cure said breach within 60 days of notice of material breach, then all licenses granted hereunder shall immediately become null and void and these licenses, membership interest and option in Merc-Exchange shall immediately revert to MercExchange, or its lawful successor in interest.

6.21 This Agreement shall be binding to all parties and may be executed in part by facsimile.

This Agreement is entered into the date and year first above written.

Aden Enterprises, Inc.

By /s/ MichaelS. Luther
MICHAEL S. LUTHER
President & Chief Executive Officer

MarcExchange, LLC

By /s/ Thomas G. Woolston
THOMAS G. WOOLSTON
Managing Member

LICENSE AGREEMENT
By and Between
Navlet.com, Inc. and
MercExchange, LLC

This LICENSE AGREEMENT, (hereinafter the "Agreement") is entered into this 1st day of March 2000 by and between Navlet.com, Inc., ("Navlet" or the "Company") a Nevada corporation, having a principal place of business at 114 North Alfred Street, Alexandria, Virginia 22314, and MercExchange, LLC, ("MercExchange"), a limited liability company under Virginia law, having a principal place of business at 114 North Alfred Street, Alexandria, Virginia 22314.

RECITALS

WHEREAS, Navlet is embarking on a major development and industry initiative to build and deploy systems in the field of Infrastructure Provider products and services that employ the Subject Patents; and

WHEREAS, Navlet understands that patent protection provides an important commercial advantage and agrees to consult and confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Infrastructure Provider products and services and the claims of the Subject Patents; and

WHEREAS, MercExchange desires to license Navlet to the Subject Patents subject to the terms and conditions as set forth herein;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants contained herein, the parties hereby agree to the following terms and conditions.

ARTICLE I
DEFINITIONS

1.1. Definitions. For the purpose of this Agreement only, the following terms shall have the meanings indicated.

1.2. The term "Subject Patents" means the following patents, patent applications and any and all continuing patent applications:

A. U.S. Patent Application No. 08/427,820, Entitled "Consignment Nodes"

B. U.S. Patent Application No. 08/554,704, Now U.S. Patent No. 5,845,265, Entitled "Consignment Nodes"

C. U.S. Patent Application No. 09/203,286 (Petition for Interference with U.S. Patent No. 5,794,207) Entitled "Consignment Nodes"

D. U.S. Patent Application No. 09/166,779, Entitled "Method and Apparatus for Facilitate Internet Commerce with Binding Offers to Sell and Binding Counter-Offers to Buy in an Electronic Market"

E. U.S. Patent Application No. 09/253,014, Entitled "Method and Apparatus for Facilitating Electronic Commerce Through Internet Auctions"

F. U.S. Patent Application No. 09/253,021, Entitled "Method and Apparatus for Facilitating Internet Commerce Through Inter-networked Markets and Auctions"

G. U.S. Patent Application No. 09/253,015, Entitled "Methods and Apparatus for Automatically Distributing Internet Advertising"

H. U.S. Patent Application No. 09/253,057, Entitled "Method and Apparatus for Facilitating Electronic Commerce Through Two-Tiered Electronic Markets and Auctions"

I. U.S. Patent Application No. 09/264,573, Entitled "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items"

1.3. The term "Infrastructure Provider Sector" means hardware and/or software facilities for bid/ask and/or dynamic pricing systems.

1.4. The term "Gross Transactions" means the gross transactional revenues collected or earned by the Company within the Infrastructure Provider Sector. The transactional revenues under this Agreement, for the purpose of calculating that amount, shall be based on the actual amount charged, exclusive of any freight, handling, duties, commissions, clearance network costs and taxes.

1.5. The term "Calendar Quarter" means any period of three consecutive months beginning on January 1, April 1, July 1, or October 1 in any year.

ARTICLE II
LICENSE TO INFRASTRUCTURE PROVIDER SECTOR

2.1. License. MercExchange hereby grants to Navlet, during the Term of this Agreement, a nonexclusive License Grant, with no right of sublicense, to make and use the inventions disclosed and claimed in the Subject Patents within the Infrastructure Provider Sector field of use. The License grant includes, without limitation, the right to make and use hardware and/or software resources for bid/ask and dynamic pricing systems as an application service provider. All other rights not expressly granted hereunder are retained by MercExchange.

2.2. Nexus. Navlet shall use best efforts to develop Infrastructure Provider Sector products and services that employ the subject matter of the Subject Patents. Navlet shall confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Infrastructure Provider Sector products and services with the claims of the Subject Patents.

ARTICLE III
STOCK, ROYALTY AND RECORDS

3.1. Stock. As partial consideration for the license provided herein, Navlet hereby agrees to tender, within 5 days of the execution of this Agreement, 15% (fifteen percent) of its shares o MercExchange.

3.2. Royalty. Navlet shall further pay MercExchange an annual payment of the greater of (1) the first 550,000 of the Gross Transactions collected or earned by the Company or (2) 2.5% (1.5 percent) continuing royalty of Net Revenue Transactions generated in the Infrastructure Provider Sector.

3.3. Reporting. Within thirty (30) days following the end of each Calendar Quarter, beginning with the first Calendar Quarter in which the Company commences activity in the Infrastructure Provider Sector, the Company shall send to MercExchange reports of the Gross Transactions collected or earned by the Company in the preceding Calendar Quarter, providing descriptions or identifying characteristics of the goods or other products or services sold, total quantities for the transaction, and the sale price of the goods or other products or services sold hereunder.

3.4. Payment. Each report shall be accompanied by the required payment in U.S. Dollars. For the purpose of calculating the royalties payable hereunder, respective currencies of the Gross Transactions shall be convened to U.S. Dollars at the rate of exchange quoted in The Wall Street Journal in

force on the last working day of the period for which payment of royalty is being made.

3.5. Record Keeping; Inspection & Audit. The Company shall maintain complete and accurate records of the Gross Transactions collected or earned under this Agreement, showing their respective descriptions and identifying characteristics, including model numbers, if any, quantities, and calculations of unit royalties due and payable thereon. These records shall be maintained for a period of at least three (3) years subsequent to Company's latest quarterly royalty report. Periodically during the term of this Agreement and subsequent to the expiration or termination of this Agreement, for any reason, upon 30 days prior written notice to Company and upon execution of a Confidentiality Agreement in Company's favor, MercExchange's independent duly appointed Certified Public Accountant may inspect and/or audit Company's records that pertain to the Gross Transactions during regular business hours for the purpose of verifying the completeness and accuracy of all reports to MercExchange. Such inspection shall occur no more frequently than once per calendar year. If said audit, determines that there has been a shortfall in royalties paid to MercExchange in excess of three percent (3%) of the amount actually due for the period under audit, then Company shall reimburse MercExchange for the reasonable expenses actually incurred by MercExchange for the audit.

ARTICLE IV
ENFORCEMENT

4.1. Right to Enforce Subject Patents. MercExchange retains the sole right to enforce and control the enforcement of the Subject Patents against all other third parties not licensed hereunder. The Company agrees to cooperate and join in said enforcement action if deemed a necessary party.

4.2. Non-Monetary Remuneration. If the Subject Patents are Licensed to third parties and MercExchange receives as con-

sideration for said third-party License non-monetary remuneration, including but not limited to the placement of a Navlet navigational applet, participation in or providing content to the Navlet system, a web easement, discounted or free advertising, a linking agreement, then Navlet shall purchase in cash or equity said non-monetary remunerative benefit from MercExchange at (1/3) one-third the fair market value for said non-monetary remunerate benefit within 30 days of the written offer of said non-monetary remuneration from MercExchange to Navlet.

ARTICLE V
OTHER PROVISIONS

5.1. Term. This Agreement, unless earlier terminated as provided under this Agreement, shall remain in full force and effect until the last claim of any patent included in the Subject Patents expires.

5.2. Termination for Cause. If MercExchange believes that Navlet has materially breached any of its obligations under this Agreement, MercExchange shall promptly notify Navlet of said breach in writing with reasonable particularity. If Navlet fails to adequately correct such breach within two (2) months from the effective date of the first written notice, MercExchange may terminate this Agreement and the License by providing written notification of termination to Navlet. The termination of the License shall immediately cause the License to revert to MercExchange with no further step or action at law or equity required by MercExchange.

5.3. No Joint Venture. The relationship between the parties shall be limited to performance of their respective obligations as set forth in this Agreement. Nothing in this Agreement shall be construed to create a partnership or joint venture between the parties or to authorize either party to act as general agent for the other party, or to permit either party to restrain or otherwise bind the other party. No party shall be

liable for any of the actions, omissions, or indebtedness of the other party.

5.4. Assignability. Except as otherwise provided herein, the rights and licenses granted by MercExchange to Navlet in this Agreement are personal and may not be assigned, sub-licensed or otherwise transferred by Navlet without the prior written consent of MercExchange.

5.5. No Implied License. Nothing contained in this Agreement shall be construed as granting by implication, estoppel or otherwise, any licenses, warranties (implied in fact or law) or rights other than those expressly granted herein, or creating any obligation other than those expressly granted herein.

5.6. Patent Validity. Nothing in this Agreement shall be construed as a warranty or representation by MercExchange as to the validity or scope of the Subject Patents or that the exercise of the license rights under the Subject Patents will not infringe upon the rights of any third party.

5.7. No Indemnification. MercExchange does not indemnify, warrant or otherwise guarantee or hold harmless Navlet from enforcement and/or legal action brought by any third party.

5.8. Notification. The parties shall notify each other in writing, by certified mail, at the following address which may be amended from time to time upon written notification:

MercExchange:

Thomas G. Woolston
Managing Member
MercExchange, LLC
114 North Alfred Street
Alexandria, Virginia 22314

Navlet:

Michael S. Luther
For the Board of Directors
Navlet.com, Inc.
114 North Alfred Street
Alexandria, Virginia 22314

5.9. Controlling Law. This Agreement shall be construed and enforced in accordance with, and shall be governed by the laws of the Commonwealth of Virginia without giving effect to the provision, policies, or principles thereof relating to choice or conflict of laws.

5.10. Severability. Any provision of this Agreement that is illegal, invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

5.11. Waiver. The failure of any party to enforce any of the provision of this Agreement, or of any rights with respect thereto, shall not be considered a waiver thereof or in any way affect the validity of this Agreement. The failure by any party hereto to enforce any of said provisions, rights or elections shall not prejudice said party from later enforcing or exercising the same or any other provisions, rights, of elections which it may have under this Agreement.

5.12. Integration. This Agreement contains the entire and only understanding between the parties with respect to the subject matter hereof, and supersedes all prior agreement and understandings, whether oral or written, with respect thereto. No modification or wavier of this Agreement or any of its provisions shall be binding unless in writing and signed by a duly authorized representative of each of the parties hereto.

5.13. Bankruptcy or liquidation. The license granted hereunder shall immediately revert to MercExchange if the Company seeks protection under the Bankruptcy laws or is subject to liquidation under the laws of the United States.

5.14. Non-refundable. All funds, payments, royalties, and distributions made by Navlet to MercExchange hereunder are non-refundable.

5.15. Remedy for Breach. If the Company materially breaches any condition of this Agreement and does not cure said breach within two (2) months notice of the material breach, then all licenses granted hereunder shall immediately become null and void and these licenses shall immediately revert to MercExchange, or its lawful successor in interest. MercExchange retains all rights to pursue any and all available remedies for any material breach of this Agreement, whether in law or in equity.

5.16. This Agreement shall be binding to all parties and may be executed in part by facsimile.

This Agreement is entered into the date and year-first above written.

MarcExchange, LLC	Navlet.com, Inc.
By /s/ Thomas G. Woolston Managing Member	By /s/ Michael S. Luther For the Board of Directors

LICENSE AGREEMENT
By and Between
Leftbid.com, Inc. and MercExchange, LLC

THIS LICENSE AGREEMENT, (hereinafter the "Agreement") is entered into this 8th day of October, 1999 by and between Leftbid.com, Inc, ("Leftbid" or the "Company") a Nevada corporation, having a principal place of business of 590 Madison Avenue, New York, New York 10022, and MercExchange, LLC, ("MercExchange, a limited liability company under Delaware law, having a principal place of business at 114 N. Alfred Street, Alexandria, VA 22314,

RECITALS

WHEREAS, Leftbid is embarking on a major development and industry initiative to build and deploy Internet Markets and Auctions in the field of fine art and artifacts that employ the pending and issued Subject Patents; and

WHEREAS, Leftbid agrees that patent protection provides an important commercial advantage and agrees to consult and confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Internet Markets and Auctions and the claims of the pew and issued Subject Patents; and

WHEREAS, MercExchange desires to license Leftbid to the pending and issued Subject Patents subject to the terms and conditions as set forth herein;

NOW, THEREFORE, in consideration of the promises and of the mutual covenants contained herein, the parties hereby agree as follows:

ARTICLE I
LICENSE TO FINE ART SECTOR

1.1 License. MercExchange hereby grants to Leftbid, during the Term of this Agreement, a nonexclusive License Grant, with no right of sublicense, to make and use the

inventions disclosed and claimed in the pending and issued Subject Patents within the field of use of the Fine Art Sector. All other rights not expressly granted hereunder are retained by MercExchange.

1.2 Nexus. Leftbid shall use best efforts to develop Internet Markets and Auctions that employ the subject matter of the pending and issued Subject Patents for use in the field of use of the Fine Art Sector. Leftbid shall confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Internet Markets and Auctions with the claims of the pending and Issued Subject Patents.

1.3 Stock. As partial consideration for the license provided herein, Leftbid hereby tenders 7.5% (7.5 percent) of its shares to MercExchange, within 5 days of the execution of this Agreement.

1.4 Royalty. Leftbid shall further pay MercExchange an annual payment of the greater of (1) the first $50,000 of the Gross Transactions collected or earned by the Company or (2) a 1.5% (1.5 percent) continuing royalty of the Gross Transactions generated in the Fine Art Sector, in accordance with Article II below.

ARTICLE II
PAYMENT OF ROYALTY AND RECORDS

2.1 Within thirty (30) days following the end of each Calendar Quarter, beginning with the first Calendar Quarter in which the Company commences activity in the Free Art Sector, the Company shall send to MercExchange reports of the Gross Transactions collected or earned by the Company in the preceding Calendar Quarter, providing descriptions or identifying characteristics of the goods or other products sold, total quantities for the transaction, and the sale price of the goods or other products sold hereunder.

2.2 Each report shall be accompanied by the required payment in U.S. Dollars. For the purpose of calculating the

royalties payable hereunder, respective currencies of the Gross Transactions shall be converted to U.S. Dollars at the rate of exchange quoted in The Wall Street Journal in force on the last working day of the period for which payment of royalty is being made.

2.3 The Company shall maintain complete and accurate records of the Gross Transactions collected or earned under this Agreement, showing their respective descriptions and identifying characteristics, including model numbers, if any, quantities, and calculations of unit royalties due and payable thereon. These records shall be maintained for a period of at least three (3) years subsequent to Company's latest quarterly royalty report. Periodically during the term of this Agreement and subsequent to the expiration or termination of this Agreement, for any reason, upon 30 days prior written notice to Company and upon execution of a Confidentiality Agreement in Company's favor, MercExchange's independent duly appointed Certified Public Accountant may inspect Company's records which pertain to the Gross Transactions during regular business hours for the purpose of verifying the completeness and accuracy of all reports to MercExchange. Such inspection shall occur no more frequently than once any calendar year. If said audit determines that there has been a shortfall in royalties paid to MercExchange in excess of three percent (3%) of the amount actually due for the period under audit, then Company shall reimburse MercExchange for the reasonable expenses actually incurred by it for the audit.

ARTICLE III
ENFORCEMENT

3.1 Right to Enforce Subject Patents. MercExchange retains the sole right to enforce and control the enforcement of the Subject Patents against all other third parties not licensed hereunder. The Company agrees to cooperate and join in said enforcement action if deemed a necessary party.

ARTICLE IV
DEFINITIONS

4.1 Definitions. For the purpose of this Agreement only, the following terms shall have the meanings indicated:

4.1.1 The term "Subject Patents" means the following patents, patent applications and any and all continuing patent applications:

A. U.S. Patent Application No. 08/427,820, Entitled: "Consignment Nodes"

B. U.S. Patent Application No. 08/554,704, Now U.S. Patent No. 5,845,265, Entitled: "Consignment Nodes"

C. U.S. Patent Application No. 09/203,236 (Petition for Interference with U.S. Patent No. 5,794,207) Entitled "Consignment Nodes"

D. U.S. Patent Application No. 09/166,779, Entitled "Method and Apparatus for Facilitate Internet Commerce with Binding Offers to Sell and Binding Counter-Offers to Buy in an Electronic Market"

E. U.S. Patent Application No. 09/253,014, Entitled: "Method and Apparatus for Facilitating Electronic Commerce Through Internet Auctions"

F. U.S. Patent Application No. 09/253,021, Entitled: "Method and Apparatus for Facilitating Internet Commerce Through Inter-networked Markets and Auctions"

G. U.S. Patent Application No. 09/253,015, Entitled: "Methods and Apparatus for Automatically Distributing Internet Advertising"

H. U.S. Patent Application No. 09/253,057, Entitled: "Method and Apparatus for Facilitating Electronic

Commerce Through Two-Tiered Electronic Markets and Auctions"

I. U.S. Patent Application No. 09/264,573, added: "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items"

4.1.2 The term "Fine Art Sector" means the right to make and use and the inventions claimed and disclosed in the Subject Patents relating to the Internet Market and Auctions in the fine art and artifacts market, including, without limitation, paintings, sculptures, valuable artifacts and antiques.

4.1.3 The term "Gross Transactions" means the gross transactional revenues collected or earned by the Company for the operation of said Internet Markets and Auctions in the Fine Art Sector. The transactional revenues under this Agreement, for the purpose of calculating that amount, shall be based on the actual amount charged, exclusive of any freight, handling, duties, commissions, clearance network costs and taxes.

4.1.4 The term "License Grant" means the right to make and use the inventions claimed and disclosed in the Subject Patents in the Fine Art Sector.

4.1.5 The term "Calendar Quarter" means any period of three consecutive months beginning on January 1, April 1, July 1, or October 11 in any year.

4.1.6 The "Term" of this Agreement, unless earlier terminated as provided under this Agreement, shall remain in fun force and effect until the last claim of any patent included in the Subject Patents expires.

ARTICLE V
OTHER PROVISIONS

5.1 Termination for Cause. If Leftbid shall materially breach any of its obligations under this Agreement and shall fail to adequately correct such breach within two (2) months from the effective date of the first written notice to Leftbid, Merc-

Exchange may terminate License pursuant to the notice provision below. The termination of the license shall immediately cause the License to revert to MercExchange with no further step or action at law or equity required by MercExchange.

5.2 No Joint Venture. The relationship between the parties shall be limited to performance of their respective obligations as set forth in this Agreement. Nothing in this Agreement shall be construed to create a partnership or joint venture between the parties or to authorize either party to act as general agent for the other party, or to permit either party to restrain or otherwise bind the other party. No party shall be liable for any of the actions, omissions, or indebtedness of the other party.

5.3 Assignability Except as otherwise provided herein, the rights and licenses granted by MercExchange to Leftbid in this Agreement are personal and may not be assigned, sub-licensed or otherwise transferred by Leftbid without the prior written consent of MercExchange.

5.4 No Implied License. Nothing contained in this Agreement shall be construed as granting by implication, estoppel or otherwise, any licenses, warranties (implied in fact or law) or rights other than those expressly granted herein, or creating any obligation other than those expressly granted herein.

5.5 Patent Validity. Nothing in this Agreement shall be construed as a warranty or representation by MercExchange as to the validity or scope of the Subject Patents or that the exercise of the license rights under the Subject Patents will not infringe upon the rights of any Third Party.

5.6 No indemnification. MercExchange does not indemnify, warrant or otherwise guarantee or hold harmless Leftbid from enforcement and/or legal action brought by any Third Party.

5.7 Notification. The parties shall notify each other in writing, by certified mail, at the following address which may be amended from time to time iron -widen notification:

MercExchange:

Thomas G. Woolston
Managing Member
MercExchange, LLC
114 N. Alfred Street
Alexandria, VA 22314

Leftbid:

Mark Borghi
Leftbid.com, Inc.
590 Madison Avenue
New York, NY 10022

5.8 Controlling Law. This Agreement shall be construed and enforced in accordance with, and shall be governed by the laws of the Commonwealth of Virginia without giving effect to the provision, policies, or principles thereof relating to choice or conflict of laws.

5.9 Severability. Any provision of this Agreement that is illegal, invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

5.10 Waiver. The failure of any party to enforce any of the provision of this Agreement, or of any rights with respect thereto, shall not be considered a waiver thereof or in any way affect the validity of this Agreement. The failure by any party hereto to enforce any of said provisions, rights or elections shall not prejudice said party from later enforcing or exercising the same or any other provisions, rights of elections which it may have under this Agreement.

5.11 Integration. This Agreement contains the -entire and only understanding between the parties with respect to the subject matter hereof, and supersedes all prior agreement and understandings, whether oral or written, with respect thereto. No modification or wavier of this Agreement or any of its provisions shall be binding unless in writing and signed by aduly authorized representative of each of the parties hereto.

5.12 Bankruptcy or liquidation. The license granted hereunder shall immediately revert to MercExchange if the Company seeks protection under the Bankruptcy laws or is subject to liquidation under the laws of the United States.

5.13 Non-refundable. AR funds, payments, royalties, and distributions made by Leftbid to MercExchange hereunder are non-refundable.

5.14 Remedy for Breach. If the Company materially breaches any condition of this Agreement and does not cure said breech within two (2) months notice of the material breach, then all liceases granted hereunder shall immediately become null and void and these licenses shall immediately revert to MercExchange, or its lawful successor in interest MercExchange retains all rights to pursue any and all available remedies for any material breach of this Agreement, whether in law or in equity.

5.15 This Agreement shall be binding to all parties and may be executed in part by facsimile. This Agreement is entered into the date and year first above written

Leftbid.com, Inc.
By /s/ MARK BORGHI
Mark Borghi
President & Chief Exective Officer

MercExchange, LLC
By /s/ THOMAS G. Woolston
Thomas G. Woolston
Manager Member

SETTLEMENT AGREEMENT

This Agreement is entered into this 1st of June, 2001 (the "Effective Date") by and among MERCEXCHANGE, L.L.C., a Virginia Limited Liability Company, with its principal place of business at 116 South Patrick Street, Alexandria, Virginia (hereinafter referred to as "MercExchange") and GOTO.COM, NC., a Delaware corporation with its principal place of business at 74 North Pasadena Avenue, Pasadena, California (hereinafter referred to as "GoTo.com").

WHEREAS MercExchange and GoTo.com are parties to a lawsuit currently pending in the United States District Court for the Eastern District of Virginia, Civil Action No.: 2:00CV826 (the "Action"), wherein MercExchange claims that GoTo.com has infringed and is infringing various claims of U.S. Patent No. 6,085,176 (the "'176 Patent"), and wherein MercExchange is seeking a permanent injunction and damages for that alleged infringement, and wherein GoTo.com denies liability for the matters alleged;

WHEREAS MercExchange has alleged that GoTo.com also is infringing U.S. Patent No. 5,845,265, and wherein GoTo.com denies liability for the matters alleged;

WHEREAS MercExchange and GoTo.com desire to compromise and settle completely the disputes between them, on a worldwide basis, upon the terms and in the manner provided herein;

NOW THEREFORE, in consideration of the promises, the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and

sufficiency of which are hereby acknowledged, MercExchange and GoTo.com agree as follows:

1. As used herein, "Designated MercExchange Patents" shall mean:

(i) all patents and applications identified in the attached Appendix A;

(ii) any and all other patents issuing from and/or claiming priority to, directly or indirectly, any patent application identified' by serial number in the attached Appendix A, wherever and whenever issued;

(iii) any and all other patents issuing from and/or claiming priority to, directly or indirectly, any patent application filed on or before the date of this Agreement on behalf of MercExchange and/or naming Thomas Woolston as an inventor, wherever and whenever issued, excluding L.T.S. Patent No. 6,162,123 and all continuing patent applications based thereon; and

(iv) any reissues, reexaminations, extensions, and foreign counterparts to the patents identified in (i)-(iii).

2. MercExchange, for itself and for ail persons or entities claiming under, by or through them, hereby folly and unconditionally releases and forever discharges GoTo.com, its directors, officers, members, employees, attorneys, consultants, agents, servants, distributors, licensees, representatives, customers, insurers, subsidiaries, division(s), affiliates, or its former parent, regarding any and all claims, demands, damages and causes of action of whatever kind or nature, whether in law or equity, whether known or unknown, developed or undeveloped, asserted or unasserted, that MercExchange may have or may have had against them, from the beginning of time through the Effective Date, other than

those obligations required to be performed under this Agreement. Insofar as directors, officers, members, employees, attorneys, consultants, agents, servants, distributors, licensees, representatives, customers, insurers, affiliates, and its former parent are concerned, this release is limited to activities related to products and/or services provided by GoTo.com or to acts taken by or on behalf of GoTo.com. MercExchange hereby expressly waives and relinquishes all rights and benefits to claims which MercExchange does not know or suspect to exist in MercExchange's favor at the time of executing this release, from the beginning of time through the Effective Date, other than those obligations required to be performed under this Agreement, including those, which, if known by MercExchange would have materially affected MercExchange's settlement with GoTo.com. MercExchange hereby waives the provisions of Section 1542 of the California Civil Code, which states: A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM, MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

3. GoTo.com, for itself and for all persons or entities claiming under, by or through them, hereby fully and unconditionally releases and forever discharges MercExchange, its directors, officers, members, employees, attorneys, consultants, agents, servants, distributors, licensees, representatives, customers, insurers, its former Delaware parent, subsidiaries, divisions, or affiliates, regarding any and all claims, demands, damages and causes of action of whatever kind or nature, whether in law or equity, whether known or unknown, developed or undeveloped, asserted or unasserted, that GoTo.com may have or may have had against them, from the beginning of time through the Effective Date, other than those obligations required to be performed under this Agreement.

Insofar as directors, officers, members, employees, attorneys, consultants, agents, servants, distributors, licensees, representatives, customers, insurers, its former Delaware parent, and affiliates are concerned, this release is limited to activities related to products and/or services provided by MercExchange or to acts taken by or on behalf of MercExchange. GoTo.com hereby expressly waives and relinquishes all rights and benefits to claims which GoTo.com does not know or suspect to exist in GoTo.com's favor at the time of executing this release, from the beginning of time through the Effective Date, other than those obligations required to be performed under this Agreement, including those, which, if known by GoTo.com would have materially affected GoTo.com's settlement with MercExchange. GoTo.com hereby waives the provisions of Section 1542 of the California Civil Code, which states: A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM, MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

4. If GoTo.com timely makes the Settlement Payment due under Paragraph 9, then MercExchange and GoTo.com shall cause to be dismissed, with prejudice, all claims between them now pending in the Action. MercExchange GoTo.com hereby agree that each party shall bear its own attorneys' fees, costs and other expenses in connection with the Action and this Agreement. The parties hereby authorize their respective counsel to execute the Stipulation of Dismissal in the form attached hereto as Exhibit A, and to deliver it to Jerrold G. Weinberg, Weinberg Sc Stein, 1825 Dominion Tower, Norfolk, VA 23514 (the "Escrow Agent"). The Escrow Agent shall hold the Stipulation of Dismissal until such time as he is notified by MercExchange that the Settlement Payment due under Paragraph 9 has been timely made; thereupon the Escrow Agent shall tender such Stipu-

lation of Dismissal to counsel for GoTo.com for filing with the Court.

5. If GoTo.com does not timely make the full Settlement Payment due under Paragraph 9, then GoTo.com consents to the entry of judgment, in the Action, in the form attached hereto as Exhibit B (the "Consent Judgment"). The parties hereby authorize their respective counsel to execute the Consent Judgment and to deliver it to the Escrow Agent. MercExchange shall promptly notify the Escrow Agent upon receipt of the Settlement Payment due under Paragraph 9. The Escrow Agent shall hold the Consent Judgment until such time as he is notified by MercExchange that the Settlement Payment due under Paragraph 9 has not been timely made; thereupon the Escrow Agent shall tender such Consent Judgment to counsel for MercExchange for filing with the Court. Once the Consent Judgment has been entered in the Action, MercExchange may commence proceedings to enforce the Consent Judgment.

6. MercExchange, for itself and its successors and assigns, covenants never to commence, prosecute or file any claim or cause of action relating to any of the Designated MercExchange Patents against GoTo.com. MercExchange also covenants never to commence, prosecute or file any claim or cause of action relating to the Designated MercExchange Patents against the directors, officers, attorneys, or employees of GoTo.com for any acts conducted in their authorized capacities with or for GoTo.com. The covenants specified in this Paragraph 6 are personal to GoTo.com, and its directors, officers, attorneys and employees, respectively, and are not assignable or transferable. This covenant remains in full force and effect in the event GoTo.com effects a corporate name change in which no change of control occurs.

6.1 MercExchange, for itself and its successors and assigns, covenants never to commence, prosecute or file any claim or cause of action relating to any of the Designated

MercExchange Patents against GoTo.com, its affiliates, subsidiaries, divisions, customers, distributors, licensees, consultants, insurers, agents, servants and representatives for making, using, selling, or offering to sell the products or services of GoTo Search. As used herein, "GoTo Search" means any capability, process, tool, database, information repository or accounting mechanism, software, network, computer, server or service of GoTo.com that maintains and/or makes available information and/or data that can be searched or queried, modified or stored, and wherein advertisers pay or bid for placement in the search results, and which may offer other supplemental search results, and all extensions, improvements and updates which perform substantially the same function as the foregoing. For the purpose of this Agreement, an "affiliate" is a person or entity, that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, GoTo.com.

6.2 Without limiting the rights specified in Paragraphs 6 and 6.1, MercExchange, for itself and its successors and assigns, covenants never to commence, prosecute or file any claim or cause of action relating to any of the Designated MercExchange Patents against GoTo.com, its affiliates, subsidiaries, divisions, customers, distributors, licensees, consultants, insurers, agents, servants and representatives for making, using, selling, or offering for sale, any product and/or service developed, provided or acquired by GoTo.com. The covenant of this Paragraph 6.2 does NOT include any product, apparatus, system, method or service that is covered by one or more claims of U.S. Patent No. 6,202,051 ("the '051 Patent") or any claims of any subsequently issued patent related to the '051 Patent that are directed to any product, apparatus, system, method or service involving:

(i) directly performing or hosting online auctions, including, by way of example only, online auctions

similar to those currently conducted or hosted by eBay.com, Inc., and presently located at the URL www.ebay.com;

(ii) directly performing or hosting "buy it now" online auctions with a fixed price purchase option, including, by way of example only, systems similar to those currently conducted by eBay.com, Inc., and presently located at the URL www.ebay.com;

(iii) directly performing or hosting "Name your price" online transactional systems in which a buyer offers a fixed price for a product or service, including, by way of example only, systems similar to those currently conducted by Priceline.com, Inc. and presently located at the URL www.priceline.com; or

(iv) directly performing or hosting Fixed offer consumer-to-consumer transactional online systems, including by way of example, systems similar to those currently conducted by Half.com, Inc., and presently located at the URL www.half.com.

The covenant in this Paragraph 6.2 does not apply to any product or service (other than any product and/or service developed, provided or acquired by GoTo.com as set forth in this paragraph) which the affiliate, subsidiary, division, customer, distributor, licensee, consultant, insurer, agent, servant or representative made, used or sold prior to the provision of such product or service by GoTo.com.

7. (a) In the event of a merger with, or acquisition of a controlling interest in GoTo.com by, or a sale or disposition of all or substantially all of the assets of GoTo.com to, a third party and/or successors in interest, MercExchange, for itself and its successors and assigns, covenants never to commence, prosecute or file any claim or cause of action relating to any of the Designated MercExchange Patents against such a third

party and/or successors in interest relating to any business, products or services that were acquired by the third parry and/or successors in interest in such a merger, acquisition, sale or disposition. The covenant of this Paragraph 7(a) does NOT include any product, apparatus, system, method or service that is covered by one or more claims of the '051 Patent or any claim of any subsequently issued patent related to the '051 Patent that are directed to any product, apparatus, system, method or service involving:

(i) directly performing or hosting online auctions, including, by way of example only, online auctions similar to those currently conducted or hosted by eBay.com, Inc., and presently located at the URL www.ebay corm;

(ii) directly performing or hosting "buy it now" online auctions with a fixed price purchase option, including, by way of example only, systems similar to those currently conducted by eBay.com, Inc., and presently located at the URL www.ebay.com;

(iii) directly performing or hosting "Name your price" online transactional systems in which a buyer offers a fixed price for a product or service, including, by way of example only, systems similar to those currently conducted by Priceline.com, Inc. and presently located at the URL www.price line.com; or

(iv) directly performing or hosting fixed offer consumer -to-consumer transactional online systems, including by way of example, systems similar to those currently conducted by Half.com, Inc., and presently located at the URL www.half.com.

MercExchange acknowledges that GoTo.com's "GoTo Search" and "GoTo Shopping," (defined below), as they existed prior to the Effective Date, do not infringe any claim of the '051 Patent.

(b) MercExchange, for itself and its successors and assigns, hereby grants GoTo.com a fully paid up, nondivisible, nonexclusive, transferable and assignable license under the Designated MercExchange Patents to make, use, sell, offer to sell the Channel Fusion Products (as defined below). Notwithstanding the foregoing, the license granted under this Paragraph 7(b) does NOT include any product; apparatus, system, method or service that is covered by one or more claims of the '051 Patent or any claims of any subsequently issued patent related to the '051 Patent that are directed to any product, apparatus, system, method or service involving:

(i) directly performing or hosting online auctions, including, by way of example only, online auctions similar to those currently conducted or hosted by eBay.com, Inc., and presently located at the. URL www.ebay.com;

(ii) directly performing or hosting "buy it now" online auctions with a fixed price purchase option, including, by way of example only, systems similar to those currently conducted by eBay.com, Inc., and presently located at the URL www.ebay.com;

(iii) directly performing or hosting "Name your price" online transactional systems in which a buyer offers a fixed price for a product or service, including, by way of example only, systems similar to those currently conducted by Priceline.com, Inc. and presently located at the URL www.priceline.com; or

(iv) directly performing or hosting fixed offer consumer-toconsumer transactional online systems, including by way of example, systems similar to those currently conducted by Half.com, Inc., and presently located at the URL www.half.com.

In addition, MercExchange, for itself and its successors and assigns, covenants never to commence, prosecute, or file any

cause of action against any person or entity for direct infringement, contributory infringement or inducement of infringement of the '051 Patent, or a subsequently issued patent related to the '051 Patent as defined in the preceding sentence, for making, using, selling or offering to sell the Channel Fusion Products. The covenant given in this Paragraph 7(b) applies only to the Channel Fusion Products and no other product, service, method, system or apparatus. All of the rights given in this Paragaph 7(b) may be transferred or assigned by GoTo.com or its successor(s) to a third party along with the sale or transfer of all or substantially all of the assets of the Channel Fusion Products.

(c) In this Settlement Agreement the following terms shall have the specified meanings: GoTo Shopping means the business that existed under the brand of GoTo Shopping or Cadabra prior to the Effective Date of this Agreement.

Channel Fusion Products means the products and services that existed under the brand name "Channel Fusion" of GoTo Auctions prior to the Effective Date, and all extensions, improvements and updates which perform substantially the same functions as the foregoing.

8. MercExchange hereby grants GoTo.com an option to obtain a covenant corresponding in scope to that of Paragraph 7(a) in the event of a sale or disposition by GoTo.com of all or substantially all of the assets of GoTo Shopping to a third party and/or a successor-in-interest, for the products, services and systems of GoTo Shopping that were acquired from GoTo.com and/or its successors. GoTo.com may exercise this option by making a payment (in the form of consideration GoTo.com receives from the purchaser of GoTo Shopping, so that if, for example, GoTo.com receives stock, MercExchange receives its percentage in stock) to MercExchange equal to 4.9 % of the sales price paid by the successor-in-interest to GoTo.com for the assets of GoTo Shopping (the "Option Price"). If exercised, such Option Price shall be due

and payable within ten business days of the date of closing of the GoTo Shopping sale by GoTo.com. In the event of an acquisition of, or merger with, GoTo.com pursuant to Paragraph 7(a), this provision does not apply.

9. Within ten business days of the Effective Date, GoTo.com will cause to be paid to MercExchange $4,000,000.00 (Four Million Dollars) (the "Settlement Payment"). GoTo.com shall deposit the Settlement Payment by wire transfer to the Hunton & Williams Washington Office Client Escrow Account: Account No. 17304932, ABA Routing No. 05400030, Riggs National Bank, 1920 L Street, N.W., Washington, DC 20036.

10. MercExchange represents and warrants that (i) it is the owner of the entire right, title, and interest in the Designated MercExchange Patents; (ii) it has the right to enter into this Settlement Agreement, to fully comply with the terms and conditions of this Settlement Agreement; and (iii) the execution, delivery and performance of this Settlement Agreement has been duly authorized by all necessary action on the part of MercExchange. Nothing in this Agreement shall be construed as a warranty of any kind as to whether any patents will issue upon any of the pending applications included in the Designated MercExchange Patents or continuations or divisionals thereof; or any warranty or representation by MercExchange that any manufacture, use, lease, or sale of any product, method, system or service by GoTo.com does not or will not infringe patents, copyrights, industrial design rights or other proprietary rights owned or controlled by third parties. MercExchange shall not be liable to GoTo.com or GoTo.com's customers as a consequence of any alleged infringement of any such patents, copyrights, industrial design rights or other proprietary rights.

11. Except as expressly provided for in Paragraph 7(b), nothing in this Agreement shall be construed as permitting or authorizing GoTo.com, its successors, affiliates, subsidiaries,

agents and/or representatives to grant a license to any person or entity under U.S. Patent No. 5,845,265, and moreover, they are expressly prohibited from granting any such license. Nothing in this Agreement shall be construed as permitting or authorizing GoTo.com, its successors, affiliates, subsidiaries, agents and/or representatives to grant a license to any person or entity under U.S. Patent No. 6,202,051, and moreover, they are expressly prohibited from granting any such license

12. GoTo.com represents and warrants that (i) it has the right to enter into this Settlement Agreement, to fully comply with the terms and conditions of this Settlement Agreement; and (ii) the execution, delivery and performance of this Settlement Agreement have been duly authorized by all necessary action on the part of GoTo.com.

13. Neither the performance of any covenants contained herein, nor anything contained or incorporated herein shall be deemed, nor shall the negotiation, execution and performance of this Settlement Agreement constitute, any admission or concession of liability or wrongdoing on the part of MercExchange or GoTo.com. Any such liability or wrongdoing is expressly denied.

14. This Agreement (including the Exhibits hereto) contains the entire and only understanding and agreement of MercExchange and GoTo.com relating to the subject matter of this Agreement, and supersedes all prior discussions, undertakings, agreements, and/or negotiations whether oral or in writing. No representations or warranties shall be deemed to have been made by MercExchange or GoTo.com in connection with this transaction unless expressly set forth herein.

15. The language of this Agreement shall be construed as a whole, according to its fair meaning and intendment, and not strictly for or against any party, regardless of who drafted or was principally responsible for drafting the Agreement or any specific term or condition hereof. This Agreement shall be

deemed to have been drafted by all parties, and no party shall urge otherwise.

16. No modification or waiver of this Agreement or any of its provisions shall be binding upon the party against whom enforcement of such modification or waiver is sought unless made in writing and signed on behalf of such party by one of its duly authorized officers.

17. Assignment by MercExchange of any of the Designated MercExchange Patents as defined herein, shall not affect any rights acquired hereunder, and any such assignment shall be subject to the continuing rights under all of the paragraphs of this Agreement.

18. This Agreement shall be binding on the parties, together with their successors, heirs, assigns, agents and representatives.

19. The terms of this Agreement are confidential. Notwithstanding the confidentiality of this Agreement, if either party determines in good faith upon the advice of legal counsel that disclosure of this Agreement and matters relating hereto is required under applicable law, the rules and regulations of the Securities and Exchange Commission, the New York Stock Exchange, NASDAQ Stock Market or any other regulatory body, then such disclosures, including public statements and press releases, limited to the substance of such required disclosures, may be made. To the extent practicable, except with respect to SEC and other regulatory filings and as otherwise may not be permitted by law, GoTo.com shall provide advance notice to MercExchange and MercExchange shall provide advance notice to GoTo.com, of any such required disclosure. In addition to and notwithstanding the foregoing, the parties may disclose to any third party the existence of the Settlement Agreement and refer said third party to any public filing that has been made to a regulatory body pursuant to the provisions of this paragraph.

20. With the exception of the California Civil Code Section 1542 recited in Paragraphs 2 and 3, this Agreement shall be construed, interpreted, governed, and applied in accordance with the laws of the State of New York, as presently existing, together with any applicable federal law. Should the Consent Judgment referred to in this Agreement be filed, MercExchange and GoTo.com agree to consent to the personal jurisdiction of the United States District Court for the Eastern District of Virginia for such Consent Judgment and further agree that any action to enforce the terms of the Consent Judgment shall be brought solely and exclusively in that court. Should any action or proceeding be brought either to enforce this Settlement Agreement or to enforce the Consent Judgment, then the prevailing party shall be entitled to an award of reasonable attorneys' fees.

21. This Agreement may be executed in counterparts, all of which together constitute an original, and facsimile signatures shall be treated as original signatures.

22. MercExchange and GoTo.com represent and warrant that they each have the full power and authority to enter into this Agreement and to perform all transactions, duties and obligations herein set forth. Each signatory to this Agreement who signs on behalf of a party represents and warrants that he or she has the authority to sign on behalf of that party.

23. Thomas G. Woolston represents and warrants that other than the patents and patent applications identified in Paragraph 1 there are no other patents or patent applications naming Thomas G. Woolston as an inventor, as of the Effective Date.

IN WITNESS WHEREOF the Parties hereto have caused this Settlement Agreement to be executed by their duly authorized representatives, effective as of the day and year indicated above.

MERCEXCHANGE, L.L.C.

By:_____
Print Name:_____
Print Title:_____
Date:_____

GOTO.COM, INC.

By: [illegible]
Print Name: Ted Meisel
PrintTitle: CEO & President
Date: 6/4/01

As to Paragraph 23:
By: _____
Thomas G. Woolston

Date: _____

MERCEXCHANGE, L.L.C.

By: /s/ Thomas G. Woolston
Print Name: Thomas G. Woolston
Print Title: Manageing Member
Date: 6/1/01

GOTO.COM, INC.

By:_____
Print Name:_____
Print Title:_____
Date:_____

As Paragraph 23:

By: /s/ Thomas G. Woolston
THOMAS G. WOOLSTON
Date: 6/1/01

APPENDIX A

Country	Serial No	Filing Date	Patent No
USA	09/264,573	03/08/99	6,085,176
USA	08/554,704	11/07/95	5,845,265
USA	08/427,820	04/26/95	
USA	09/166,779	10/06/98	-
USA	09/205,286	12/02/98	-
USA	09/253,014	02/19/99	
USA	09/253,021	02/19/99	6,203,021
USA	09/253,015	02/19/99	--
USA	09/253,257	02/19/99	-
USA	09/418,564	10/15/99	--
USA	09/422,057	10/21/99	--
USA	09/422,058	10/21/99	--
USA	09/422,059	10/21/99	--
USA	09/422,599	10/21/99	--
USA	09/556,653	04/24/00	--
USA	09/557,817	04/25/00	--
USA	09/644,857	08/24/00	--
USA	09/670,561	09/27/00	--
USA	09/670,562	09/27/00	--
PCT	US00/08594	03/30/00	
PCT	US00/06595	03/15/00	--
PCT	US00/06646	03/15/00	--
PCT	US00/09656	03/30/00	--
PCT	US96/06735	04/26/96	WO9634356A1

BEST AVAILABLE COPY

Exhibit A

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:00cv826

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

GOTO.COM, INC.,

Defendant.

STIPULATION OF DISMISSAL

Pursuant to Rule 41(a)(1)(ii) of the Federal Rules of Civil Procedure, the parties hereby stipulate to the dismissal, with prejudice, of the Complaint, each side to bear its own costs and attorneys' fees.

SO ORDERED this __ day of June __, 2001.

United States District Judge

WE STIPULATE TO THIS:

By: _____
Gregory N. Stillman (VSB No. 14308)
Robert M. Tata (VSB No. 30101)
HUNTON & WILLIAMS
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Suite 1000
Norfolk, Virginia 23510
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Facsimile: (757) 625-7720

By: _____
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Stanley G. Barr, Jr. (VSB No. 7224)
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Counsel for Defendant

Exhibit B

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:00cv826

MERCEXCHANGE, L.L.C.,

Plaintiff.

v.

GOTO.COM, INC.,

Defendant.

CONSENT JUDGMENT

Upon consideration of We consent of the parties, judgment is entered in favor of the Plaintiff MercExchange, L.L.C. ("MercExchange") in the amount of FOUP MILLION AND NO/100'S DOLLARS ($4,000,000.00), against Defendant GoTo.com, Inc. ("GoTo.com"), together with interest thereon from the date of entry at the rate of six percent (6%) per annum.

This Court shall retain jurisdiction over the parties in connection with any enforcement of this Order.

ENTERED this ___ day of June ___, 2001.

United States District Judge

WE CONSENT TO THIS:

By: _____
Gregory N. Stillman (VSB No. 14308)
Robert M. Tata (VSB No. 30101)
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Suite 1000
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Counsel for Defendant

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., et al.,
Defendants.

Norfolk, Virginia
April 22 through May 21, 2003

TRIAL TRANSCRIPTS

* * * *

[252] enjoy trading person to person. That's the second main reason for eBay's success. EBay's success has nothing to do with Mr. Woolston and nothing to do with his patents.

Before I explain what the evidence is going to show specifically about his inventions, I want to talk about the timing of his inventions, and that's very important. Mr. Woolston did not ask for the patent that is in suit right now. This '265 is called a consignment node patent. He didn't ask for that patent until after eBay and after other online auctions were open to the public and were used by thousands of customers.

Mr. Woolston filed his first patent application in April of 1995. However, that application did not mention a number of key terms. It did not mention transaction processor. It did not mention the World Wide Web. It did not mention these posting terminals that Mr. Woolston refers to. Those are things that he now claims eBay and Half.com infringed. In an April' 95 application, those terms weren't in his application. He didn't submit them. He didn't have those.

The other issue about the April '95 application, the first one that was filed, it didn't have all these terms that he's now alleging infringe. That was rejected by the patent office over and over, and it stands highly rejected. That patent has received a final rejection by the patent office [253] sometime ago.

Now, after Mr. Woolston filed that first application, it didn't have any reference to these things that he claims infringe now. There is a company called OnSale. OnSale launched its OnSale auction on the World Wide Web in May of 1995. It received an enormous amount of publicity, attention from the media and press. OnSale's launch was also covered by leading national magazines and newspapers, including the New York Times. And again, that was launched in May of '95. You will hear in this case from the inventors of that system. And yes, they have patents on that system. Inventors are Mr. Kaplan and Mr. Fisher. They invented the OnSale system and are responsible for that widely successful and publicized launch in May of 1995.

Ebay also launched its online auction on the World Wide Web on September 1, 1995. Now, at that time it wasn't called eBay. It was called Auction Web. But Auction Web was an immediate success. It soon attracted thousands of loyal customers or users.

Now, seven months after filing this first patent application, seven months—that was finally rejected by the patent office.

That April '95 application was finally rejected. Seven months later—and again, this is after the public launch of OnSale—after the launch of eBay, Mr. Woolston filed a new application, and filed this in [254] November of 1995. And that's the application that's at issue in this case, the '265. The '265 consignment node patent was filed in November of '95.

He added—you see, after OnSale and after eBay came out with their systems and other art was out there, Mr. Woolston added in November of '95 a whole new section to his invention. He added another embodiment, and for the first time he added these references to this transaction processor; for the first time he added references to the World Wide Web. That was never mentioned in his April application. And the first time in November of '95 is when he adds what he calls these posting terminals.

Your Honor, can I show a few boards, Your Honor?

THE COURT: Yes. Similar to the way that—

MR. RANDALL: Sure.

THE COURT:—was done earlier.

MR. RANDALL: To give you an idea of what he added, for instance—now, this is a complicated figure, I understand that. There is a lot of components on this. It is Figure 12 of this new patent application that he filed in November of '95. And I would normally point out the items that he added, but he added all of them. He added the entire figure, this whole thing. He added another figure very similar to this one as well.

Now I think he testified that, well, he was doing [255] it to clarify. Everything was in the April '95 application, but I just did this to clarify. Well, that's an entirely new figure and new information in this application.

In addition to that—I won't show you all of these, but this is what's called a red line version of what he added.

Everything that's underlined, everything that's underlined was added to this November '95 application. And I'm not going to go through and read all of this to you, but I will point out a couple of things.

Down here, and this is the first page of the text of the patent, it says summary of invention. And he adds, A new invention to the summary of the invention called this low cost computer means for used good and/or consignment stores to establish a trusted computerized market.

Let me show you a few other representative copies. I'm not going to read all this. Everything that's underlined he added apparently just for clarification.

This document here where he talks about his figures, he added Figure 12, which is a block diagram of the posting terminal to market maker computer. He added the entire Figure 13, which is a diagram showing the user interface on a posting terminal or a consignment node. There are multiple pages like this of his application showing entirely new information. Here is one, here is another. It goes on and on and on, and you will be able to see this later in the case.

[256] Now, I mentioned earlier that Mr. Woolston added numerous terms that were not in his April '95 application. Those terms are very important, because they are terms that appear in the claims. They appear in what he claims his inventions are.

Can you pull up the '265 claim chart? What's put on this board here, this shows down in the first column 1265 claims, a number of them, several, that are all impacted by- what he added in November. The new claim language is on the right-hand side. And as you can see, this interface wide area communication network; market for goods; the posting terminal; this communications handler; the storage device that's connected to this posting terminal—I'm sorry, post handler.

Down below, the presentation mapping module. *That's* what gets you to the World Wide Web. That was the meat grinder. The transaction processor. That's what apparently does—it does all this transaction. And again, I disagree with that chart that was put up. And this notification means. All these items are in those claims of his inventions. He didn't invent it in April of '95, that's for sure. He added it all in November. He added it all well after the public launch of OnSale and eBay.

Accordingly, we are going to present evidence, not just this evidence, but other evidence as well, that Mr. Woolston did not present these inventions until well after [257] eBay was a success, well after other online auctions were up and running on the Internet, on the World Wide Web.

Furthermore, when Mr. Woolston did provide the '265 application to the patent office in November of '95, the patent office looked at those claims and rejected all of them. Mr. Woolston then had to come back—the patent office had to rejected all of them in April of '97. So Mr. Woolston had to go back to the patent office and say—he looked around and decided what his invention would be. And he came back to the patent office. And it wasn't until July of '97 that Mr. Woolston submitted the claims that you are now going to be considering.

So those claims that he presented to the patent office that you are now going to be considering were first presented to the patent office in his July '97 amendment during prosecution before the patent office. That was two years, nearly two years after eBay was already around, and it was over two years after OnSale's public launch.

Now, in order to understand the evidence in this case, I'm going to provide you with some of the terms that Mr. Woolston used in his patents and his ideas. What Mr. Woolston wanted to do with his invention was he wanted to

link together ordinary pawn shops or consignment stores using computers. The evidence will show that the typical operations of a consignment store are as follows.

* * * *

[259] what he called a trusted network of consignment nodes. Think of a consignment node as like a consignment store. He wanted to link them together in what he called a trusted network of consignment nodes.

He referred to the store owner, this consignment store owner, as a consignment node user. That person would use this machine, this apparatus that would be physically located at the consignment store.

Now, while Mr. Woolston may have included some technical terms and jargon in his applications, things that he thought were new, they weren't new. The typical operations of the consignment store were known. And also, there were plenty of other applications, Internet applications, buying and selling goods on the Internet way before Mr. Woolston.

Mr. Woolston testified earlier in this case in what's called a deposition, that he believed he had extraordinary skills in the field of consignment node invention. The consignment nodes and the operation of these things, he had extraordinary skill in that art.

Can you play clip 38?

(The video clip was played for the jury.)

MR. RANDALL: And, for the record, that was page 87, lines 14 through 20.

So Mr. Woolston is not one of ordinary skill in the art, he's one of extraordinary skill in the art. However, the [260] evidence will show that he knew very little about the problems that he was trying to solve and the solutions that were already out there.

He testified that when he filed his applications and told the patent office that he had invented this new network of consignment stores, that he was unaware of the basic operations of consignment stores. So at the time he tells the patent office that he's invented this new network of consignment stores, he was unaware of how they operate, and yet he was one of extraordinary skill in that art..

Can you play clip number 34?

(The video clip was played for the jury.)

MR. RANDALL: That was at page 79, line 22. Can you show clip 33?

(The video clip was played for the jury.)

MR. RANDALL: That was at page 79, lines 8 through 20. Can you play clip 35, please?

(The video clip was played for the jury.)

MR. RANDALL: That's at page 82, lines 16 through 20.

So at the time Mr. Woolston filed his applications, claiming to invented this new network of consignment stores and the operation of those consignment stores, he knew very, very little about any problems associated with those operations. He didn't know about the operations of a typical [261] consignment store let alone how to solve any problems that did exist, even though he was one of extraordinary skill in the art.

Could you show clip number 32?

(The video clip was played for the jury.)

MR. RANDALL: Mr. Woolston timely filed his application. The evidence will show he simply wasn't in a position to know whether or not he really did invent anything new and novel and useful and an advancement of the art. He simply wasn't in the position to know whether he did that or not.

Can you play clip number 18?

(The video clip was played for the jury.)

MR. RANDALL: You will hear in this case an enormous amount of evidence about what specifically Mr. Woolston invented. It's this consignment node concept, the concept of bringing typical operations of a consignment store to computers and linking them in a trusted closed network. You will hear an enormous amount of evidence about that, and yet at the time he filed his applications, he didn't know what a consignment store was or any of the typical operations.

Due to some of the problems that Mr. Woolston was trying to address, namely, fraud, many of the concepts in this case are going to center around trust and honesty. EBay's system is a person-to-person system in which sellers deal [262] directly with buyers regarding the sale of a good. EBay's system is based on the fact that buyers and sellers will trust each other, ordinary buyers and sellers will trust each other to do this transaction. EBay opens its system to nearly everyone everywhere who wants to list nearly anything for sale. They have an open system.

The evidence will show that Mr. Woolston's system is a middleman system or an intermediary system in which there is a trusted intermediary between the buyer and the seller, and that trusted intermediary inspects and handles the goods, they store or warehouse the goods. And the buyer and seller, they don't deal directly with each other. They deal only with that trusted intermediary. That's the only person they deal with. That's a closed system.

Mr. Woolston's system is based on the fact that buyers and sellers won't trust each other or don't need to trust each other because they'll trust its middleman. The eBay system is based on buyer and seller trusting each other to do this transaction. Mr. Woolston's system is saying, no,. the buyers and sellers won't trust each other, so why don't we just put a 'trusted

intermediary in the middle, and you will trust that trusted intermediary to conclude the transaction for you.

Mr. Woolston's system, only this trusted intermediary can post or list goods for sale. Buyers and [263] sellers, ordinary people don't list goods for sale. It's just this trusted intermediary, like a consignment store owner. That's the only person that can post these goods for sale.

Let me give you an example of the differences with a real transaction. Let's say that you had a painting you wanted to sell for a few hundred dollars. In Mr. Woolston's closed intermediary system, here is how that would work. The trusted intermediary or consignment store owner would accept the good, inspect it, make sure that it was of an appropriate quality, make sure that the description of the good was accurate, and then post the good on this network. And he would vouch for all of that, the quality, the accuracy after this inspection.

When you bought that good, you would buy it from this trusted intermediary. That's who you would send your money to. You send your money to this trusted middleman, and that person would then send you the painting and you would trust that person to do that. You trust that, number one, they inspected it, number two, the description is accurate, and number three, that when you send your money to this trusted intermediary, you are going to get the painting.

And Mr. Woolston—and eBay—and, by the way, in that example, the buyer and the seller never meet each other, never communicate with each other, never have to transact any business whatsoever with each other. You don't have to trust [264] that other person.

In eBay's person-to-person system, the seller, who is likely a stranger, lists this painting on eBay's Web site, for instance, and puts a description of this painting and maybe a picture. Now, when you are bidding on that, you are free to send e-

mails to the seller. You are free to exchange information with the seller. Maybe get the phone number, call this person up, ask them some questions about it or do it through e-mail, whatever way you want to do it. Now, you may or may not get responses from that person, the seller. If you don't get any responses, maybe you just say I don't feel comfortable buying it then, or maybe you do, but it's up to you whether you want to proceed or not.

And let's say you go ahead and proceed. You looked at the description and you looked at the picture and you decide you want to buy this off the eBay Web site. You are going—if you are the winning bidder, you are going to buy it directly from that seller, and you are going to be placed in contact with them. You are going to have that seller's e-mail number and maybe a phone number, and you are going to communicate about how that good is going to be shipped to you.

When you send your money to the seller—and you are going to send it in any number of ways. Maybe the seller says I want a cashier's check. Well, then, you send the seller a cashier's check. The seller may say I want a wire. I [265] want you to wire this money to me, or I want you to do it online through an electronic payment system. It doesn't matter. It's up to the seller how the seller wants to be paid.

And when you send your money, if you have ever used it—and I don't know how many of you have—but just think about it. What kind of a queasy feeling would you have the first time you ever used eBay and you sent your money off to some stranger. You are trusting that stranger. You are trusting that stranger to send you the goods after they get the money. You sure hope they do.

So you send your money to the stranger, and you hope that they send you the good, number one. Number two, that they have it. Number three, that they have accurately described it.

that you are getting what you thought you paid for. And that's the trust. That's the person-to-person aspect of it. You are trusting this other person to send you this item, and that it's actually bona fide exactly what you wanted to buy.

So, the fundamental differences between these two systems are—really, there is a number of them, but you can categorize them in two ways. One is the trust, the trust and where you place that trust in eBay's system. We trust the buyer and seller to behave honestly with each other and to treat each other fairly.

[266] And in Mr. Woolston's system, he says, no, the buyer and seller won't ever meet. They won't ever communicate. They don't need to. They won't trust each other. Only deal through a middleman, that's it. His system is a closed, system. Only permits this trusted middleman to post the goods. And our system is an open system; allows everybody to post these goods for sale.

Can you pull up the eBay user agreement? These are excerpts from eBay's user agreements, and it can be found at Exhibit 112. But as the chart says, eBay is not involved in the actual transaction between buyers and sellers. And as a result, it has no control over the quality, legality, truth or accuracy of the listing, etc. And the reason for that is that eBay never takes possession of the goods.

Go to the next one. Here is some other cautionary statements in the user agreement. That eBay can't guarantee you that the transaction can be completed, and they don't control the information that's provided by the seller.

So eBay's system allows everyone to list, and the reason it does that and the reason it can't inspect all the goods is that whoever is selling on eBay has the good in their possession. They have it. They describe it. When they get the money and they are satisfied, they send the good to the buyer. eBay never

takes possession of the good. They never inspect it. They never vouch for the description of the good.

[267] EBay simply trusts, trusts that the sellers are going to be honest. They trust that the sellers are going to describe their goods accurately, and they trust that the seller is going to send that good to the buyer when they get paid. EBay's system believes that the buyers are going to trust these sellers. The buyers are going to trust the seller to accurately describe it and is going to send them the good when you buy it.

Now, there are a few problems that Mr. Woolston, I think, was trying to solve through his inventions, through linking together these pawn shops or consignment stores. He believed that the buyers and sellers wouldn't trust each other and that no one would buy something from a stranger. So what he suggested was to put this trusted intermediary in the middle and you would bring the good to this trusted intermediary, this consignment store.

A local consignment store brings the good to them, let them inspect it, check out the description of the good, and then post using this apparatus from a machine that would be in that store, and then that Way, the only goods that would be for sale on this network would be those goods that had been checked. They had been checked for quality, the description was accurate. And you knew that when you bid on one of those goods, you knew that that good actually existed, it had been inspected, and it is sitting right there in the consignment [268] store, the consignment node operator, and you know that when they pay that store, they are going to send you the good. You are not dealing with another person. You are dealing with this consignment node store.

Mr. Woolston also wanted to come up with a way of searching for information, and his solution was that if you linked these consignment stores together on a computer, the way you can search the various stores to find a particular item

was if you have—each store have the same software. So if each store has the same computers, same apparatus or machine, and the same software, you can create a closed network or a trusted network, and you can then search for those items.

I think that there is a ton of common examples out there in the world about closed networks, where you have access to certain things because it's within a network, but others don't. Well, that's what he wanted. He wanted to make sure that the only goods that were posted on this system had been inspected and prequalified and the description had been checked; and when he searches those goods, he wants to make sure that everybody is tied into a common operable network that uses the same equipment and the same software. He never disclosed anything else. He never disclosed to be able to search on different platforms, different machines, different software.

[269] Let me want to walk through some examples specifically from his patent, and these—this information comes from two sources, actually. One, from his patents, and two, from his business plan. Mr. Woolston, at the time he filed his applications, also wrote a business plan and a few different variations of his business plan, all describing his inventions and what he meant by that specifically. So these are not my words, these are his words, and you are going to hear more evidence about this. But I want to show you a few slides showing the key concept of his—what he claims he invented.

Can you show the slide? All right. This is a portion directly from his patent where he says, under the summary of invention, that it's to establish a trusted computerized market.

Go to the next slide. This is Exhibit 358, which shows that he believed that Internet customers were required to make a huge leap of faith, that they were going to get ripped off, and

that his present invention solved the problem by putting this trusted intermediary between the buyer and the seller.

Go to the next one. Here, Mr. Woolston—and this is Exhibit 597—states that the prior art does not provide this avenue for participants to speculate. That's another aspect of what he considered to be his invention, which was if [270] the consignment node owner or consignment store owner held the goods that he already inspected and so forth, and if you bought the good at that time, whether it's a baseball card or whatever else, it's still sitting there at that consignment store, right, and so you bought it.

Say you bought it for $10 and it's sitting there at the consignment store, and the consignment store owner calls you up and notifies you that he's now purchased this baseball card for $10 that's sitting here, would you like me to ship it to you. You could say, Well, why don't you keep it. Keep it. You've got a description of it, you have already inspected it. Just put it back on the computer for $12. I think I got a good buy on it. Put it back on for $12. That's his speculation feature that he claims to have invented.

The only way you can implement that, the only way is if that good stays with this trusted intermediary. If it stays with that trusted intermediary, then you can turn around and say, oh, just go ahead and repost it for sale. You have already got it, you have inspected it, you got the detailed description of it, just repast it. That's the speculation feature.

Go to the next slide. This is also—the next slide is also from his '265 patent, and this is where he -this section of slides is where he describes exactly what the trusted network of intermediaries or franchisees do. And he [270] suggested that in his patent, that they would be trusted intermediaries and that they would also be franchisees. You give them a license to post goods on the system.

And what he talks about is providing a trusted means to assure the potential buyers of the goods' bona fide availability and legal title. What he means by that is that the goods that are posted on his network, his closed system, someone has checked them, they are authentic and they have title to them and they are ready for sale, they are sitting there ready for sale. Also, he talks about the obvious fraud in the bona fides of the collectibles. That means that they are not authentic.

This is a demonstrative which has been provided to us, which is basically what his system looks like. You've got buyers and sellers, and in the middle you've got this trusted intermediary who inspects the good, adds value to the description, meaning if, for example, the good appears to be in wonderful shape, then the consignment node owner can add a description saying-I have looked at this and it's in great shape. Adds to the value of the description by also just basically checking it and saying, yes, it's good, it's an accurate description of this good.

The trusted intermediary also transfers ownership of that good. So, for example, in Mr. Woolston's system, you have deposited a good with this trusted intermediary. You [272] have signed a—apparently signing over title to this good and allowing the trusted intermediary to sell it, and when the trusted intermediary sells it, he gives electronic title or switches the title in the system and now gives title to the new buyer.

Let's go to the next slide. Again, this is under the summary of invention section, to provide a trusted network of consignment nodes that act as brokers.

Go to the next slide. Here he's talking about—and again, this is under the summary of invention. When you look at the patent, you will see that there are a number of paragraphs under the summary of invention where he claims that this is

what I invented. And again, he calls these consignment node operators trusted licensees or franchisees of the software and hardware necessary to create the consignment node. What he's talking about is these are trusted licensed franchisees that have this equipment in their store and they are capable of accepting goods and putting them on this network.

Let's go to the next slide. This is also from the patent where he is talking about his framework of trusted franchisees provide high confidence and accuracy regarding the legal finality of the transaction. And he claims that this is a massive step toward building confidence between buyers and sellers. And when he's talking about the legal finality of [273] the transaction, is that when you put a bid in his system to buy something, that trusted intermediary immediately changes title right then to the seller, and it's done. There is no dealing between the buyer and the seller at all.

Let's go to 3, Section 3. In terms of adding value, one of the things that this trusted intermediary does is adds value to the descriptions. So it's the trusted posting of goods on the market and adding value. That means that when there is goods for sale on this, you know that, number one, it wasn't just some stranger posting something. You know who posted it. The only people that can post on his system are those people that have been licensed or franchisees and it's not a stranger. It's someone that actually has an agreement with this consignment node network.

Next slide. This is from his business plan, written about the same time that he filed his first application where he says no individual or business may operate a consignment node without being a member of the franchise.

Go to the next slide. Again, from another business plan. No individual or business may post goods on the Fleanet market without being a Fleanet franchise owner. Fleanet was a business that he started to implement and build his inventions.

So at the same time he filed his application, he started this company called Fleanet, and he intended that [274] business to build and operate these consignment node networks and build his inventions. And what he is saying is you can't post unless you are a licensed trusted intermediary.

Go to the next slide. The same thing. If you Want' to sell goods, you must sign a bailment contract-and-turn over physical possession of the goods to the franchisee. What he's talking about is in order to sell a good, you have to go down to the store, give them the good and sign a contract saying, here you go, you have possession of it now and You are authorized to sell it. Very much.-like a consignment store.

Next slide. Go back one. Again, this one, all goods posted on the Fleanet market must be in the physical possession of a Fleanet franchisee. And we've gone over this. The goods have to be in that store, and that's what creates. this trust he's talking about. Ebay doesn't have any warehouse space for goods. EBay'never takes possession of these goods. It is a completely different system.

In Mr. Woolston's system, the trusted intermediary does everything, stores the goods, keeps them, and eBay never touches the goods, never sees the goods, Certainly doesn't inspect them. Certainly doesn't change the description of the goods and doesn't limit who can post the goods for sale.

Let's go to tab 4. These slides are also from the patent, the '176 patent, and because both of his inventions, both of his patents share what's called the same [275] specification, the same description of his inventions is used in both of these patents. And so I have been talking about his system and about his concepts. They apply equally to both patents.

And so when he's talking about searching, he searches the plurality of consignment nodes to search for a used good or collectible. What he's talking about searching is those members of his closed network, the consignment nodes or

consignment stores. That's the only thing he attempted to disclose, and that's the only thing that's he claimed, searching these trusted network participants.

Go to the next slide. Here he describes in the patent what he's talking about. That you log onto the consignment node to formulate a search for a particular good. The consignment node then searches its own database for the requested good or generates agents to search and report back a request of other consignment nodes. Let me explain that for a minute.

If someone says I want to find a Babe Ruth baseball card in his system, the consignment node operator would look in his own database and see if he has it or search the other databases of the other consignment stores that are tied to that closed network. He never disclosed anywhere in his inventions anything about going outside that network.

And, in fact, in this case you will be instructed [276] that what it means to search is you have to search through this trusted network. That's what you have to search through. You don't go outside to third patties or anyone else. You search on this network that has cannon software, common equipment, and you also search for a particular item.

Go to the next one. And you-are going to hear this term because it appears in some of the inventions. Searching a plurality of consignment nodes for a used good.: That's what he's talking about, searching a number of different stores that are all tied to this network.

Go to the next slide. This also is from the patent, and what I want to direct your attention-to is the last paragraph where it says, The agent handler may be entered by a predetermined series of codes and verification procedures to verify a request for an agent connection to the consignment node is from a bona fide agent and a-bona fide consignment node.

What he is saying there in his patent is that the only people that can search his network are those consignment stores themselves. It's a closed network.. Third parties can't get into it, and the only people that conduct a search are the members of this trusted network.

Go to tab 6. Again, this is under the summary-of his invention, his patent. Consignment node then transfers legal ownership of the good by changing the ownership entry in [277] the data record and the consignment node of the good.

What he's talking about here in his invention is that when someone buys a good, the system itself, this consignment store, it has possession of the good, it has title of the good, and it's-logged into a computer. That information is stored in the computer. What it does is it electronically transfers the ownership. It says instead of John Smith owning this baseball card, now someone else will own this baseball-card, and they just transfer it electronically to someone else. That's what they do.

The only way you can do this, the only way you can perform this transfer of ownership function—and this is an important claim in this case—is if you have ownership. See, if you—if a system never takes possession of the good, never takes ownership of the good, how can it ever transfer ownership of that good? In Mr. Woolston's system, you had to take—physically take the good to his consignment store, sign a contract, turn it over, and then it was in the hands of his trusted bailee, transfer ownership when it was sold. His claims require that. His claims require this transfer of ownership.

EBay never takes possession of goods, never sees them, never inspects them. It never acquires any ownership in that good, period. It cannot transfer ownership of that good because it never required ownership, and that's a big point in [278] this case.

Go to the next slide. This is his other feature which is speculation. Think about the speculation function. If you are going to buy and sell rapidly a good, let's say a baseball card, that baseball card has to stay at the consignment store. It has to be—the electronic title of that baseball card has to be stored there at that consignment store. And if one person buys it on one day and then he reposts to sell it again, and then reposts it to sell it again, it makes sense that that card would have to be sitting there at that consignment store with an electronic entry in the computer to just switch who owns the card.

The only way you can accomplish this invention that he claims he has is if you have possession of the good and you have ownership of the good or ownership interest, which eBay never has.

Go to the next slide. Next slide. Stop right there. This is what he's talking about. This is, again, another slide from his patent about this speculation function. He says, It's understood that the purchasing participant may elect to leave the good or collectible at the consignment node and post a new offer or reserve price. Saying after you buy it, it doesn't have to be sent to you, it can just stay there and repost it at a higher price.

Go to the next slide. This is from his business [279] plan in 1995. It's Exhibit 358. And it says, In theory, a small business could design around the claims—meaning avoid them—of the consignment node patent—and that's his '265 patent—by manually entering information and using the server in pure retail mode, e.g., no speculating in the electronic market.

So if you don't perform this speculation function, you don't infringe. He is saying you don't have—and you cannot possibly perform a speculation function unless the goods are sitting there, you have inspected them, they are in your

facility, you have got title to them, and you can transfer them. EBay doesn't do any of that. Never has.

Keep going through the slides. Yeah, stop there. This is a '265 patent abstract. And what that means is that at the start of your patent, you have an opportunity to kind of summarize what you think your invention is. And when Mr. Woolston filed his November version, this new November 1995 application, this is what he wrote. He prosecuted this patent himself and he wrote it.

He says, It's a legal framework that establishes a bailee relationship and consignment contract. And then near the end of this he states, While assuring the safe and trusted physical possession of a good with a vetted bailee. That's what his invention—at least that's what he thought his invention was. That's what he was claiming it was.

[280] Basically, it's a consignment store tied together with computers. You bring your good to this consignment store, look at it, they post it if they want to, and if you wanted to buy it, you can buy it. But definitely, the consignment store controlled the posting, controlled the good, inspected it, and maintained physical possession of it, and acquired, apparently, an ownership interest in it with this bailee contract saying I'll let you keep it and you can sell it if you get my price for it. EBay doesn't do any of that and never has.

I told you earlier that Mr. Woolston was not the first person to come up with these ideas. He's been trying to get patents issued from the patent office for the last eight years. In the last eight years, he's filed 16 different applications, all based on the same specification. And I think Mr. Stillman stood up and put that specification in front of you, all the different pages and different components of it. Sixteen different times. He only has three patents and two of which are in this case.

The patent office during this eight years, during the 16 applications, all trying to squeeze inventions out of the same description, the patent office has rejected thousands of his claims, thousands. The patent office during this process—and there have been numerous, different patent examiners that have all handled his various applications, many [281] of whom have rejected all of his claims in its entirety. They have told him repeatedly—he's a patent lawyer, and he's been prosecuting his own patents for much of the time. They have told him repeatedly, these ideas and concepts are not new, they are not novel. Others did them. And he still keeps coming back, coming back hoping somebody let something through.

Also, there are some key prior art systems that were never before the examiner, the particular examiner who examined this '265 patent. Key prior art that that examiner never had before her, never considered. You will consider it and it will be evidence in this case.

Do you want to put up the chart of the known '265 elements?

You saw earlier a demonstrative about certain components that were all allegedly in eBay's system, and disagree with the chart, but we'll talk about that later. But these are all concepts in this chart. These are all concepts that he claims are his inventions and components of his inventions: This posting terminal, the market for goods, communication means, communications handler, storage device, presentation mapping module, transaction processor, and notification module.

There is a column that says patent office examiners. And during these eight years, during these 16 applications, [282] during the rejections of thousands of claims, the patent office has repeatedly told Mr. Woolston all those concepts are well-known. They are well-known. Anyone of ordinary skill, let

alone extraordinary skill, ordinary skill in the art would know these things. They are obvious. Every one of those components are obvious. That anyone ordinary skill in the art would know them. And MercExchange's own experts, Dr. Weaver, has also admitted that all of those are known. All of them.

Can you pull up the next slide? I'm going to talk about some of his prior art right now and try to move through this. I understand it gets tiresome.

This is the '265 consignment node patent. In April of 1995, online markets for Internet businesses were known, online transactions to transfer the payment and ownership were known, and online posting of goods was known. Mr. Woolston is not the first person that did any of this, and we've got plenty of art and our witnesses will testify about that. But the suggestion that selling on the Internet through e-commerce aspects is something that Mr. Woolston invented, he absolutely did not. Not even close.

Go to the next slide. Okay. Online markets were known. In 1986, the ACORN Network was online nationwide allowing collectors to buy or sell collectibles in an online auction.

ACORN Network, you are going to hear from the folks [283] who came up with that, Mr. Blankley and Mr. Mintz from Memphis, Tennessee. They had a wonderful system. In '96, they were selling coins and other collectibles, and they had a system where if you wanted to sell a coin, you would come into their store, give them the coin. They would inspect it, inspect that coin, make sure it was authentic, because they didn't want coins on their—coins and other artifacts on their system that weren't authentic. And the testimony that you are going to hear from them is that if you allow that, then your system isn't worth anything, and they didn't want that.

They wanted to inspect everything before it went on the network. So all of the coins and notes and other financial instruments, artifacts were all inspected by the ACORN

Network company in Memphis, Tennessee, and then would post these items on the network, a closed network.

Accessible by CompuServe. And so if you did a search or something on the Internet for a collectible, you went to CompuServe. You go right to their site and go right to their network and be able to look at all the number of different pennies, for example, or something like that, all of which you knew had been inspected, were authentic, and would be sent to you if you sent your money in. And you are going to hear from those two gentlemen.

The next slide is—not a slide, but in 1994 there [284] were plenty of systems available for buying and selling livestock online. I mean, you can imagine, you wouldn't want to ship—constantly ship livestock, but if you wanted to buy cattle or other types of livestock, you can certainly do it. And there were plenty of online auctions for that.

In February '94, Ken Nahan filed this patent, the '111 patent, for a trusted network of online art dealers. That system, the Nahan system, was never before the examiner of the '265.

In that system, if you wanted to sell—for instance, Mr. Nahan and his Wife came up with a system whereby there was a network of art dealers, for example, art dealers across the country could join this network and take images of the paintings and art that they had in their shop, put it on this network.

And so, for example, if you walked into an art shop down the street and you said I want to look at a certain artist's painting, there would be a search done on the network, just like Mr. Woolston claims, of all the dealers that were tied to that network, and what would come up would be all of the art work by that artist. Or if you wanted to do it by color, or if you wanted to do it by someone—you know, outdoor sculptures, anything like that, you could search this network

and, all of a sudden, you would have these pictures come up to you. You could sit there and look at them, and you [284] buy them right through the system.

It discloses—this Nahan system discloses much earlier everything that Mr. Woolston claims. You are going to see videos of this system. Much more sophisticated than what Mr. Woolston came up with. And it was not never considered by the examiner.

Now, one thing about the Nahan system—and I told you about 16 different applications and number of different examiners—when somebody did find the Nahan system, the PTO cited it repeatedly against Mr. Woolston. So when that system surfaced, it was cited repeatedly to reject his claims. He knew all about it, and yet we are still here today. And I'm not forcing anybody to be here today. We were sued.

Go to the next slide. I'm sorry. Back up. There were also cars—online car auctions well before Mr. Woolston. In February of '95, before Mr. Woolston also, the Earth Foundation reported this rock and roll art auction, some 26 million Internet users that it was opened up to. And you are going to see this art, and we'll have experts and they will walk you through it. I'm just letting you know now that there is a load of art out-there about online auctions, online selling of goods. Mr. Woolston isn't even close to the first one to do it.

Go to the next one. These are additional online transactions. There was some suggestion that taking a credit [286] card over the Internet was somehow-novel or something. In '92, this Netbill service was an online Internet payment . transaction system.

The next bullet point. 'Stephen Crocker founded CyberCash in August of '94 to create accounts for-transactions over the Internet. You are going to hear from Dr. Crocker. He's going to testify. You are going to hear about how he developed the predecessor to the Internet, Arpanet. He was, one of the few engineers who worked on that project and

developed it. He understands protocols very well. He founded this company in August of '94 to do secure transactions over the Internet.

Again, in March '95, OpenMarket also had an online service for products.

Go to the next one. Posting terminals, also something that's going to be in this suit Mr. Woolston claims to have invented. These are references from the patent office. One of ordinary skill in the art would have been motivated to use a digital camera for scanning the image of a good as it can be accomplished at the terminal. Bar code printers are known.

The AMC system—and you are going to hear from the inventors in that system as well—disclose creating an electronic image/data record for distributing to potential buyers.

[287] So we are going to disclose witnesses, art, we'll walk through the art regarding selling things online much before Mr. Woolston. The Nahan system is a wonderful system that you are going to be able to see, not just look at a patent and figures. The ACORN Network system, all of the other articles, we'll have a number of witnesses come and summarize this art to you.

And I think you will come to appreciate that while some of this stuff may be new right now in terms of just seeing it for the first time, you will see that all of this was out there. There was a tremendous wealth of art out there in this much before Mr. Woolston about selling goods online and about doing the same things that he claims he invented. Much of that art was never before the examiners. Once they found the art, they repeatedly rejected repeated attempts to get more claims.

There was something else I mentioned earlier in this opening, which was the description of his inventions and his patents. We have—you have to describe in your invention, your invention sufficiently to allow someone of ordinary skill in the art to build it. That's the bargain you have with the

government. That you can get a patent, but the only way you can get a patent is if you describe how to build it. You have to teach those of ordinary skill in the art how to build this new thing that you have now created. Mr. Woolston didn't do

* * * *

[292] Goodwill or Salvation Army on your own, some old clothes or something like that and go down and deliver it, would you then say that—and someone came in and bought a pair of jeans for two bucks or something like that, would you say that the Salvation Army and Goodwill searched your home for those jeans that particular item? No, you wouldn't. Well, that's what's happening in this case.

Half.com is provided a host of information by third parties. Third parties deliver to Half.com information. Half.com takes that and puts it in their database, okay, and then a user comes along and says,' I'd like an AM/FM radio. Half.com says, Here it is, it's in my database, there you go. Has Half.com conducted a search of a plurality of these other databases for that item? No, of course not. Just like the Salvation Army or Goodwill didn't do a search of your house for those pair of jeans that you dropped off with dresses and other things. They didn't do a search of your house. It's just not the same thing. It's completely different. And that's going to be an issue that you will decide in this case.

There was a mention about a meeting between eBay and MercExchange. MercExchange approached eBay and wanted to there was a lawsuit going on between eBay and another company called Bidders Edge, and it was over whether or not Bidders Edge could search eBay's site, and eBay said, no, we don't want you searching our site, you are clogging our network.

[293] So there was a lawsuit between eBay and Bidders Edge, and MercExchange heard about it. And MercExchange came to eBay and said, hey, maybe we can swap. You know,

maybe you can take this '176 patent. It will help you out in that lawsuit.

There is a gentleman named Mr. Phillips who is Mr. Woolston's friend. He's an attorney. He's a co-owner of MercExchange, and he also happened to be an old classmate of someone that worked at eBay. So he called this guy up at eBay and said, hey, we've got a patent, maybe we could help you out with this Bidders Edge case. And there is some correspondence between MercExchange and eBay about that. That call and that communication took place between eBay and MercExchange before any communications with the lawyers.

Mr. Woolston testified in his deposition that what he wanted to do with respect to that meeting was he wanted to horse trade. He thought that maybe he could provide some intellectual property rights to eBay and that eBay would provide some intellectual property rights to him, to allow him access to eBay's site or something like that. But he clearly understood that that eBay-Bidders Edge decision was about whether or not third parties could come onto your Web site, and he had a patent that he thought allowed that, and so he wanted to discuss that.

At the time of this meeting—a couple of things

* * * *

[304] Q. Do you have any children?

A. Yes. I have a daughter, Georgia. She's almost

THE COURT: Mr. Woolston, I think if you move the mic back, you might be able to sit back and be more comfortable. I don't know, it's up to you. But you're kind of sitting there at the edge. So however you want to do it, that's fine.

THE WITNESS: That's better.

BY MR. STILLMAN:

Q. All right. Mr. Woolston, how are you currently employed?

A. I'm employed by MercExchange.

Q. What is the business of MercExchange today?

A. Now it's primarily, Mike May and I, we are trying to find a home for the intellectual property. We are trying to sell it or license it.

Q. Tell the jury, if you would, something of your personal history and background. Where are you from originally?

A. I was born in Pontiac, Michigan 1963, and I was raised in a town called Lionel, Ohio.

Q. And what did you do after you—or when did you graduate from high school?

A. I knew you were going to ask that. I think it was 1981.

* * * *

[305] Q. And what did you do after high school?

A. I enlisted In the US Air Force.

Q. What kind of training did you get in the Air Force?

A. I spent a year In Biloxi, Mississippi, getting electronics training. Basically electronics, computers, radars. We studied the B526 and D models.

Q. What was your job in the Air Force?

A. Primarily understanding these computer systems and fixing them and maintaining them.

Q. What Is the B52G?

A. It's a very old bomber, but It's a good one. It's a bomber. It has an electronic warfare system on it that defeats radars from tracking It and countermeasures to evade radars and protect the crew.

Q. And did you fly on that plane?

A. No. I didn't fly on the 1352G. I got accepted Into a, the Peacetime Aerial Reconnaissance program and had another year of electronics training. This was modern

computers, modern telecommunications systems, telephony, some Soviet-era communications systems, cryptography. That's how they scramble communications between, between ourselves and who we want to talk to. And radios, receivers.

Q. You mentioned the Peacetime Aerial Reconnaissance [306] program. What was that?

A. What I was doing was working on an aircraft called the RC-135. It's, It kind of looks like the AWACS with this Frisbee on top, except ours, we didn't have the dome, we had antenna out of the bottom of the plane.

I was stationed In Okinawa, Japan. We would fly—I was a crew member. We'd fly missions from 12 to 17 hours, about ten or 12 miles off what was then the Soviet Union and north Korea and China.

Q. Did you have the opportunity to pursue any educational opportunities in the Air Force?

A. Not when I was In Okinawa. We were pretty busy there. We'd fly maybe Monday, Wednesday, Fridays, and when we weren't flying we were generating the aircraft for the next day's mission. I did that, for almost two gear's and then I was assigned to Fort Meade, maryland, National Security Agency, and there I did have an opportunity to start going to night school. I started at University of Maryland, computer science.

Q. You studied computer science at the University of Maryland?

A. Yes I did.

Q. How long did you stay in the Air Force?

A. About four and a half years.

Q. And were you honorably discharged?

[307] A. Yes, I was.

Q. What did you do after being honorably discharged from the Air Force?

A. When we were at the Fort Meade station, a lot of young guys were getting recruited to other federal govern-

ment agencies. Some of the guys were going to the Drug Enforcement Agency. I got an opportunity to apply to the Central Intelligence Agency and I got accepted and then I joined the Central Intelligence Agency out of the service.

Q. What did you do when you were In CIA?

A. Well, I can talk about It how. Back then I was undercover. We primarily built and maintained and managed and found applications for our global communications network. We had a network we could command and control from Langley to the rest of the world that, the station chiefs and the other Intelligence assets around the world. But It was particularly my job, I was a primarily an engineer, so my job was to plan these networks and find uses for our network.

Q. Now, when you were working for the Central Intelligence Agency, did you continue your college studies?

A. Yes. I did.I had the opportunity to transfer to George Washington University down in Washington, D.C., and I switched majors.I switched to electrical engineering and computer engineering.

[308] Q. And did you eventually receive a degree from GW?

A. Yes. I graduated In 1991.

Q. Well, how long did you work for the Central Intelligence Agency?

A. About six years.A little over six years.

Q. And when did you leave the CIA?

A. I left the CIA in, I would say, '93, '92.

Q. Okay. And what did you do after that?

A. I had finished electrical engineering school and I started law school at night. And I was taking out all these student loans, and I needed to find a Job so that I would not go bankrupt. So I took a job as a law clerk at a Washington, D.C. firm.

Q. What was the name of that firm?

A. Howrey & Simon.

Q. And while you were clerking at Howrey 8 Simon, did you take classes at night at law school?

A. Yes, I did.

Q. And was that at GW?

A. Yes, I did.

Q. And when did you get your degree at OW Law School?

A. I finished my studies in 1994. I actually graduated 19 spring of 1995.

O. Did you practice law?

A. I did For a while.

[309] Q. Where?

A. After I got out of law school Howrey & Simon offered me a Job as an attorney. So I was there for a while. About a year and a half, I'd say. Then I went to, went to another law firm, Fisher E. Richardson. It's another big law firm. And then I came to your law firm for about a Year.

Q. How, you've heard the discussions this morning in opening statement about the two patents which are the subject of this suit. When did you first become interested In the general subject of e-commerce?

A. Well, I was aware of the Internet In the '80s when I was an electrical engineering student. I used to use super-computer time down in Los Alamos for an engineering project I was doing for the National Institute of Science and Technology. So the Internet was there.

What got me thinking about business applications was, I believe around 1993, the government said It was going to privatize the Internet and a lot people were looking about how to, this was the first time that businesses were going to be allowed to run over the Internet In commerce applications, and I began thinking about it then.

Q. When In 1994 did you start thinking about the application as it might pertain to you personally?

A. I had been thinking about this through the summer [310] of '94. There's Just a memory that sticks out in my mind to this day, and that was the strike of Major League

Baseball that was going that summer, and then around August they had cancelled the World Series. And I had heard on the radio that there was a baseball card store in McLean, Virginia that was probably going to go out of business. Apparently there was some fan backlash, some resentment against the players for letting the strike go so far that the World Series actually got cancelled that gear. And the story was basically that the fans had lost Interest In buying baseball cards and selling them. And the market was just dried up, and this small business was probably going to have to go under.

Q. What technology, to your understanding, was available In 1994 to enable a seller of a baseball card, for example, a private seller of a baseball card In 1994, to sell to a buyer one coast to another, for example?

A. In 1994 there were three primary technologies, the way I thought of It. There were bulletin boards, and that would be an electronic versions of bulletin boards as well of the, there was catalogs, and electronic versions of catalogs as well. And there was a television show called, the Home Shopping Channel. In my mind, each of those three had problems to really get people to sell coast to coast. In the bulletin board system, It's a lot like you [311] can pick up the VirgInian-Pilot today, and I'll use a motorcycle as an example, because I had a$500 motorcycle In college. You can pick up the Virginian on Friday, you see a motorcycle for sale, and you can call a person up and say, do you have the motorcycle? And the answer Is either yes or no. And that's fine, because It's an advertisement. If he says yes, well, you might be able to bug the motorcycle, but he's not under an obligation to sell me the motorcycle. I could go over there and say here's $700, I want to bug the motorcycle. And he can say, you know, talking about the motorcycle, I'm going to keep It for another summer. I don't want to sell It. And that's fine. That's what an advertisement Is, It's an Invitation to continue to negotiate. That's what I view as a person-to-person transaction, that you can pick up the newspaper.And there's an on-line version of

that, even when I was In college, of a bulletin board. But there's a problem in that there's an integrity problem In the author that—let's say for example you can run a three-day ad for your car In the Virginian-Pilot, and you can sell the car on Friday, and the ad still runs on Saturday and Sunday. And you just get calls all weekend. And that's okay. You just tell them, hey. I sold It on Friday. It's Just the way the ads run.

So to me there vas a problem with Integrity. And [312] it was the same problem that was there with electronic bulletin hoards, that you can see things on a board that was for sale last year. And an the on-line world, things had a way of staying forever, and you call somebody up and you say, well, I sold that motorcycle a year ago. you know. How do I get my ad off that bulletin board? And that's fine. That's, that was what was around.

The other thing was catalogs. And there were on-lIne versions of catalogs in '94 as well.' But I think the easier way to explain it, it Just, a catalog you can get in the mail to this day. You can pick up the catalog and call them up and say I want to buy this toy. And they say, I sorry, but we're out of stock. We didn't want to stop the Printing of the catalog and just went out in the mail. And that's fine, because It's really just an advertisement from a brand. like L.L. Beane. And they have some inventory things on it because they know how many items they have to sell. But it's really Just an advertisement as well.

The third thing was a television show like the Home Shopping Channel. And you can watch the Home Shopping Channel and there's a person there telling you about a figurine they want to sell, or a drill, and then they take orders over the phone where you call them up and you give them your credit card and you can buy the item. And I thought, wouldn't it be really cool to be able to pick up [313] the phone and, instead of buying, you can say I have a drill I want to sell. Can you sell It for me? And then the Home

Shopping Channel would say we have a drill we want to sell on behalf of this seller, and the Home Shopping Channel takes care of the credit card processing, they take of everything. Just tell me when It's sold. That was, that was the three things I saw. The Home Shopping Channel was what I was trying to Innovate on.

Q. And what, hr. Woolston, were your qualifications by education or experience that you thought enabled you to try to tackle some of those problems?

A. Well, I had been working in electronics and computers since I was 10, and I was, I think I was 30 at the time. So I had a lot of experience in computers and communications and computer networks. I also spent the last three years of the CIA working for the Counter Terrorist Center trying to figure out applications for our network to not just report on terrorism, but actually stop terrorism before It happened. So we spent a lot time thinking about how to use networks.

I had also written a voice-over-network application that I thought gave me the skills necessary to build an e-commerce system. It wasn't called e-commerce then, it was—that's a word that kind of came into parlance later on.

[314] Q. Well, when did you start the process of going about trying to solve those problems that you identified with electronic catalogs and the Home Shopping Channel and electronic bulletin boards?

A. It was that summer of '94. '94 was a very busy time for me, but I new about communication interfaces. That's a network card or other interface you put in a computer to allow a computer to talk to a network. I knew about databases, and I knew about credit card processing of course. I think we all did. We were all using credit cards back then. Wasn't used much on-line back then, but there were techniques to take credit cards on-line in '94 and '95.

I also knew about encryption. That's a way to secure theft-prone Information like credit card information that goes over the Internet. I knew that information was publicly obtainable. You could bug the RSA algorithm, the scrambling algorithm and put that in your system.

Q. Why did you decide eventually to acquire a patent on your solution to these problems?

A. Well, I thought It would be very helpful to small businesses and individual sellers, that a system like this would help out small business. I was from a small town, and one of the examples I used in mg patent application was that this was a big patent step forward for a person who maybe collected fountain pens and he lived in Lionel, Ohio. There [315] isn't a big market for collectible fountain pens, but maybe there was in Chicago.

So this system would help a small-town collector get to the bigger markets and get a fair price for his Item and sell them when he wanted to. To me, the notion of collecting was having the fun of buying and selling and kind of trading in and out of your collection as well.

Q. But why did you decide to get a patent on the solution to your problems?

A. I thought that was what you were supposed to do. I mean, I thought that was the first step that you needed to do to build a business. We file for a patent application, you organize a company around the idea, you would then try to get people interested In Invest log or Joining or, and then building a company.

Q. Describe for the jury, if you would, the process about how one goes about obtaining a patent.

A. Well, the U.S., United States Patent and Trademark Office grants patents. You have to file paperwork with them and they examine It.

Q. And what do you have to provide?

A. You have to provide drawings. In some cases

technical drawings, and descriptions of what you believe your invention is as to the text. Generally there's three levels of description. There's the very detailed portion on

* * * *

[336] file an international patent application to basically protect the rights of the company overseas.

This is a document that published in October of 1996?

MR. STILLMAN: We move admission.

THE COURT: All right.

(Plaintiff's Exhibit No. 645 received.)

BY MR. STILLMAN:

Q. Mr. Woolston, what is Aden Enterprises?

A. It's a company, California-company based in Omaha, Nebraska that we got associated with, MercExchange got associated with in 1990s. Early 1990s. No, 1999. Early 1999.

MR. STILLMAN: I think you may have a book on a wire or something again. We're getting some more interference. Is your microphone still working?

THE WITNESS: I think so.

MR. STILLMAN: Good. Okay.

THE COURT: It's not the latest technology.

MR. STILLMAN: It's a lot better than it used to be.

THE COURT: Sure is.

BY MR. STILLMAN:

Q. Take a look if you would at Exhibit 812.

A. Yes, sir.

[337] Q. I'm sorry, I just got passed a note that I forgot to do something.

Go back if you would and look at Exhibits 617 and 618.

A. 617 is—oh. That's an assignment from me to MercExchange Delaware, of what becomes the '265 patent.

Q. Okay. And what is 618.

A. 618 is the recordation of assignment, once again moving the rights in the '265 patent to MercExchange Virginia.

I go back to 617. 617 actually was an assignment from me of all the patent applications that could ever be claimed or issued patents from the original patent applications to the Delaware corp. And then 616 is the assignment of the patent rights from the Delaware L.L.C. to the Virginia L.L.C.

Q. Okay.

MR. STILLMAN: Your Honor, we move 617 and 618.

THE COURT: Admitted.

(Plaintiff's Exhibit Nos. 617 and 618 received.)

BY MR. STILLMAN:

Q. All right. Now let's go back to Aden Enterprises if you would, and Exhibit 812.

A. Yes, sir.

Q. What is Exhibit 812?

[338] A. This is an agreement between MercExchange and Aden Enterprises. It contains most of the terms, substantially all the terms that became a series of agreements between MercExchange and Aden Enterprises.

Q. Is it a license agreement?

A. Yes, sir, it is a license agreement.

Q. A license agreement to do what?

A. It's a license to all the pending patents, all the pending Inventions, all the issued patents, to Aden Enterprises. I think it's in a field of use of on-line travel.

Q. When you say all the patents, I need you to be specific. What patents are you talking about?

A. Well, it's quite a few. It's the original parent case, the

'620, it's the '265 patent, it's the patent that becomes the one, the patent application that becomes the '176, the patent application that becomes the '651, the patent application that becomes the '051, and any and all patents that could ever issue from the original filing date. It also gave them access to our business plans and confidential information.

Q. Okay. So among other things, this is a license agreement between MercExchange and Aden Enterprises for the '265 and '176 patents; is that right?

A. At least that, yes, sir.

[339] Q. Okay. And you mentioned that this was a field of use license. Would you explain to the jury what a field of use license is?

A. A field of use license is, you can define a term in a contract. Let's say you can use all the inventions in the on-line travel market. So we licensed them to all -anything that could happen in on-line travel, if they wanted to use one of the patented techniques or even one of the patent-pending techniques, they were free to use that.

Q. And were they free to use it outside of the area of on-line travel?

A. Right. That's the important part. You're not allowed to use it outside your field of use.

Q. Okay. What did MercExchange receive for that license?

A. We received some warrant in the company.

Q. What are warrants?

A. The right to purchase shares. Aden received a right to buy a percentage of MercExchange, 10 percent. And I believe there's a royalty provision in here as well that Aden and its on-line travel section agreed to pay MercExchange royalties.

Q. Now, when this document was executed, were you an officer in both companies, Aden and MercExchange?

A. Yes, I believe so.

[340] Q. What did you do? What was your position?

A. Well, it was chaotic. I think in October '99 I was held out as the CTO, Chief Technical Officer, of Aden Enterprises, and also some of the subsidiaries we were trying to get going.

Q. What was the principle business of Aden Enterprises?

A. It ended up being three subs. Three primary subsidiaries. There was Cheapfares—not Cheap Tickets, Cheapfares—which was going to be a PriceLine-like site where you could name your price for a ticket. And there was a company called LeftBid. It was an interesting play on words that Mark Borhee came up with. I didn't know at the time, you actually would leave a bid at a real auction, and it's sealed, and then as the auctioneers auction it off and continue, he says whoa, there's a LeftBid, and he can pull it up and open up the LeftBid. It was a fine arts vertical for primarily mid-tier auction firms like—I don't know if Sloane's is down here. Sloane's and Wexler's, and there's other ones of these medium-sized auction houses across the country. And then there was Navlet.

Q. What was Navlet.

A. Navlet was the, it started out being a company organized to exploit these inventions that myself, Mr. McEachern and Mr. Tarretts (phonetic) invented in October of [341] 1999. But it quickly got drawn into being the technical provider for LeftBid and-Cheapfares.

Q. Take a look at—

MR. STILLMAN: Your Honor, I move Exhibit 812.

MR. RANDALL: Your Honor, I understand your ruling. This comes in over our objection.

(Plaintiff's Exhibit No. 812 received.)

BY MR. STILLMAN:

Q. Take a look at Exhibit 813 if you would, sir.

A. Yes, sir.

Q. Could you tell the jury what that document is?

A. This is a license agreement between Navlet and MercExchange, L.L.C.

Q. And what is it a license agreement for?

A. It's a license agreement for the patents, at least the two patents we're talking about here today, and the pending patent applications to that subsidiary called Navlet in the field of use of infrastructure provider, which was a fancy term for saying it was tech, a technical company provider that provided the servers and the hardware and the like.

Q. And what did you receive, what did MercExchange received for the Navlet license agreement?

A. I believe there's a royalty provision in here. And it may or may not be a license issue fee. Oh, it [342] received some stock in Navlet as well.

Q. Did you receive a running royalty?

A. Yes, there's a running royalty provision.

Q. And tell the jury what that provision says.

A. Well, a patent has a limited life. It expires, and then anybody's free to use it. And during its life you can charge rent, as it were, to use it. So they were free to use it and then pay us royalties. Pay MercExchange royalties.

MR. STILLMAN: Your Honor, I move 813.

THE COURT: 813 is admitted.

(Plaintiff's Exhibit No. 813 received.)

BY MR. STILLMAN:

Q. Take a look at 814 if you would, sir.

A. Yes, sir.

Q. And tell the jury what that is.

A. This is an agreement, a license agreement to the patents between LeftBid and MercExchange, L.L.C. Again, it was similar to the Navlet agreement. They have a right in the field of use of fine arts, agreement to pay royalties.

Q. You say the field of use of fine arts. Tell the jury what that means.

A. Well, LeftBid was a company that was really this gentleman out of New York's idea, Mark Borhee. He saw an opportunity in these second-tier auction market—I [343] shouldn't call it second-tier. It's a tier of the market that's not served by the three—the two big players, which is Sotheby's and Christie's. They are the Sloane's and Wexler's of the world. There's probably one here-in Norfolk as well. An auction house that will liquidate an estate, sell paintings on your behalf. The concept was to put these live auction events basically on the Internet like television. It was a very challenging process to get the Internet to work like television. It was actually going to have a camera showing the auctioneer, the item, and there was a way for Internet participants to put bids down to the floor of the auctioneer.

Q. And what were the terms of the license agreement with LeftBid?

A. They agreed to pay us royalties if they used the inventions, and they gave us stock in the company.

MR. STILLMAN: Your Honor, I move 814.

THE COURT: Admitted.

(Plaintiff's Exhibit No. 814 received.)

BY MR. STILLMAN:

Q. Now, Mr. Woolston, did MercExchange ultimately wind up in litigation with Aden?

A. Yes.

Q. Explain to the jury how that happened.

A. Well, it was pretty chaotic. We had a gentleman [344] from Omaha, and I don't want to say anything bad about the guy, because he was a great, he had great strengths in his areas. And he gave us the opportunity to go try to make a run at building these companies. It got chaotic 'in that it got a little too chaotic. He was too inquisitive. He was trying to start too many initiatives. The real problem arose in this environment when we raised money in LeftBid. We had

raised money in the subsidiary LeftBid, and the shareholder base got fractured. So there were different shareholders in LeftBld than there were in Navlet, Cheapfares and Aden. And because we were under funded and under staffed, we ended up with conflicts of interest.

We were in a relation with relationship with Credit Suisse First Boston to help us. And Credit Suisse First Boston's advise was to pull the subsidiaries back into the parent, pull them into Aden Enterprises, by buying the stock and then running the subsidiaries as divisions. And that would remove the conflict of interest and the fighting or over scarce resources that was going on.

That required us to get proper corporate governance in Aden, to get a board in there. Myself and some other officers wanted a strong CFO reporting directly to the board and to run it, you know, responsibly as a public company.

Ultimately I wasn't able to get that done, and I [345] couldn't resolve my disputes with Mr. Luther, so we ended up litigating against each other to basically pull the companies apart. We had to get MercExchange out. We couldn't, we couldn't do it In that environment. And Mike didn't want to, didn't want to fix Aden. So we fought.

Q. Well, did Aden breach its license agreements with MercExchange?

A. Yeah. In fact, we terminated the license agreements for violations of the nexus clause. They were not using the patents. They were not using the '265, they were not use the '176, he wasn't using the pending patent applications. So we terminated the licenses on those grounds and for failure to pay royalties.

Q. So those license agreements with Aden are no longer in effect?

A. That's correct.

Q. How much did MercExchange receive as a result of the breach of those agreements?

A. Well, it's tough to say. We, we, it was a very complicated relationship between the four companies. We ended up receiving 31.2 million. We got the, we got control, or we got a full assignment of the four other inventions that myself, Mr. McEachern and Mr. Tarretts had invented in October of '99. Those were assigned to MercExchange. We got rights to the copyrights for the [346] software code of LeftBid and Cheapfares. We ended up with a copy of the server as well, which is all the half-formed business plans and other Information we acquired in that enterprise.

Q. Did MercExchange, has MercExchange, prior to this suit, ever had to sue to enforce its patent rights before?

A. Yes.

Q. When?

A. About two and a half gears ago we enforced the '176 patent, that's the search patent, against a company called GoTo.com.

Q. And did you file a suit to enforce that patent?

A. We did. We filed it here, in Norfolk.

Q. And what was the resolution of that suit?

A. We, Mike and I ended up talking with the principles and they told us they were getting out of that market. They were getting out of the search market for the '176 search market. Primarily it was a company called I Auction Rover that did what they call a cross-auction search. It searched more than one auction. They told us they were getting out of that market because, well, it became economically unviable.

MR. RANDALL: Your Honor, I'm going to object. I don't mind him saying what he did or didn't do, but he's talking about what someone else told him.

[347] THE CQURT: I think he's got to be careful about hearsay.

MR. STILLMAN: I agree.

BY MR. STILLMAN:

Q. Don't talk about what other people told you that aren't present.

A. Qkay. It was our understanding that they were getting out of this market. Ye believed them, because we looked at the same economic—it didn't, this market had failed to make economic sense after eBay made it cost prohibitive to be in this market. We agreed to a compromise on damages, and they paid us that compromised amount and we settled the complaint.

Q. And how much did you receive for that?

A. We received 84 million for that.

Q. And in return for that did you give GoTo any field of use license?

A. I don't know if we did or not. I think, I think we might have. We might have given them license to '176, but they weren't really going to use it. I mean, they gave us the economic reasons why they were getting—well, we had understood the economic reasons why they were getting out of it and we believed them.

Q. Okay, sir. Mr. Woolston, have you ever had any discussions with eBay or has MercExchange had any [348] discussions with eBay about its interests in obtaining the license to the MercExchange patent portfolio?

A. Yes.

Q. When was that?

A. Mr. Phillips was put in touch with a Jay Monahan and a Brad Handler, I believe.

Q. Who Is hr. Phillips?

A. Mr. Phillips was an attorney that was with the company. I had actually pulled him away from a very good Job at a law firm to go do our dot coo. He was, he's a reluctant entrepreneur, but I got him to come along. And a friend of mine.

Q. And when—well, did that result in any meeting or discussion with eBay?

A. Yes. It finally culminated in a meeting with eBay. We initially tried to trade them rights to the '176 patent for rights to—we needed access to eBay to build our Navlet system. Now, this is the Invention that I was talking about that we Invented in October 1999. And without eBay's cooperation, it wasn't going to be economically viable to build It. They said no, they didn't want to do any relationships. They viewed it as a straight purchase of intellectual property, they Just wanted to buy the patent from us, they didn't want any relationship with us.

Q. Let me ask you to take a look at, we're going to [349] show the Jury, Exhibit 621, which I think is bar code 1185.

Do you have Exhibit 621 there?

A. Yes, sir.

Q. What is that, sir?

A. This is an email from Andrew Kumamoto.

Q. Who Is Andrew Kumamoto?

A. He's an attorney at hr. Randall's law firm, was acting on behalf of eBay to buy our patents. He was sending us this email to set up this meeting. We were—I was kind of surprised they knew about all our pending patents. They had done their, they had done their homework. And we were very excited to meet with them.

Q. Let me—

MR. STILLMAN: Joe, If you could blow up the second paragraph of that letter.

BY MR. STILLMAN:

Q. Read that to the Jury if you would, sir.

A. 'EBay is interested in acquiring the family of applications related to U.S. patent No. 5,845,265. That's the '265 patent we're talking about today.

MR. STILLMAN: And Joe, could you pump up the second paragraph?

BY MR. STILLMAN:

Q. And read that sir, if you would.

A. Which paragraph?

[350] Q. The second paragraph—the third paragraph, I'm sorry.

A. EBay understands that this portfolio includes at least the following pending patent applications: Serial number '820, filed 12/1/98; serial number '779, filed 10/6/98; serial number '014, filed 2/19/99; serial number '015, filed 2/19/99; serial number '021 filed 2/19/99; serial number '057, filed 2/19/99; serial number '573, flied 3/18/99, and serial number '564 flied 10/15/99.*

Q. Now, do you know how eBay learned about those pending applications?

A. The only place I figured they could learn about I those was from a public filing we did of these license agreements with Aden Enterprises.

Q. Explain to the Jury what you mean by a public filing.

A. Aden was a public company. It was—

Q. What does that mean?

A. Well, it, we—if you're a public company, you are regulated by the Securities and Exchange Commission. We have obligations to issue financial reports, material events of the company and other important things that happen with the company. You have to publicly disclose that on a quarterly and annual basis, provide annual reports. It's a company that you and I could own shares in. It's publicly [351] traded. Then you get the annual report and you can find these filings, you can find them on-line now at the Security and Exchange Commission.

Q. Okay. Now, referencing the pending applications that are included in this letter from Mr. Kumamoto, at the time that this letter was written, what patents had actually been issued to eBay to you, sir?

A. I think just the '265 patent.

Q. And does this reference, this letter reference any understanding or knowledge or interest in the '176 application?

A. Yes. The '176 application we had actually given them the allowed claims. We had actually given those to Mr. Monahan, I believe. We told him that these claims had been approved by the Patent Office and it was going to issue as a United States patent. I believe that's serial number—hmm. I don't know the serial number's on the -it's one of these.

Q. Okay. Now, in June of 2000 when this letter was written, sir, did you have any understanding or belief as to whether eBay was infringing the '265 patent?

A. I did.

Q. What was it?

A. In June 2000 they were not infringing the '265 patent.

[352] Q. Why do you say that?

A. Well, you need to have—we don't have the 26 claim up there. You need to have the transaction processor .and it has to be offered in a fixed price format. On a buy it immediately or buy it now format. We had other patents on auctions. For example, the '176 has an electronic auction element where it has the search and electronic auction. But that's not what the '265 is about. The '265 is about fixed price, buy it now, with a transaction processor.

In June of 2000 they didn't have a transaction processor, I don't believe, hooked up to the eBay system. They weren't intermediating payments between buyers and sellers.

Q. What about the '176?

A. I don't believe they were infringing the '176. They certainly—

Q. 176 wasn't issued, was it?

A. Right. You can't infringe a patent that isn't issued.

MR. STILLMAN: Your Honor, we move that exhibit.

THE COURT: All right.

BY MR. STILLMAN:

Q. Now, I'd like to ask you a series of questions about your claims in your inventions, Mr. Woolston, and if [353] you need to reference those claims or take a look at your patents, feel free, but if you can answer them without reference to that, that's okay.

Is there anything in your claims, nr. Woolston, which requires—

THE COURT: We're talking about the '265 now?

MR. STILLMAN: Yes, sir.

BY MR STILLMAN:

Q. In fact, some of these questions actually may have application to both the '255 or to the '176.

Focusing on the '265 for a moment, Is there anything In your claims which require a trusted intermediary to take physical Possession of the goods?

A. No, sir.

Q. Why Is that?

A. Well, the whole thrust of the '265 patent Is that there's a posting terminal that's a personal computer; that a seller presents an Item to market electronically. The intermediary is my computer go-between. Now, like I said before when I was explaining the difference between my invention and a classified advertisement or Just a regular web site, it's that when a seller puts something up for sale in the '265 system, It's a promise. It's an obligation to perform, to deliver the item. If the system processes payment on behalf of the buyer, the system basically alerts [354] the seller after the process payment the Item Is sold. You have an obligation to perform on your promise to deliver the item to the buyer.

Now, that's a big deal. That's a big distinction over a classified ad because In a classified ad there is no obligation of the seller to actually perform on it. It's Just an adver-

tisement. It's an invitation to continue. And so in an advertising system, there's no integrity in the offers; meaning that ad can run Friday, Saturday, Sunday and from a buyer's perspective It's not marked as sold. It didn't change. It's still there. looks like It's for sale, and you end up pestering the seller. How that's what I mean by person-to-person.

Now, If you mean person-to-person that the "to" is the '265 intermediating the payment Forcing the obligation on the seller that, if the system processes the credit cards, buyer's credit cards on behalf the seller and then tells them It's sold, that that "t", that "to" is our invention. That's our trusted intermediary. That's what we mean by person-to-person, where the 'to' is our computer go-between, as It were.

Q. Okay. I want to make sure I have an answer to my question. is there anything In pour claims which require a trusted intermediary to take-physical possession of the goods?
[355] A. No.

Q. How, with respect reference to the specification In the '265 patent, you beard fir. Randall during open statement talk about embodiments?

A. I did.

Q. What are embodiments?

A. Examples, basically, of how the system can be used In different ways.

Q. Are there any embodiments in the specification which envision the possibility of an Intermediary taking physical possession of the goods?

A. Yes.

Q Okay. Are there embodiments or examples In the specification where an Intermediary does not take physical possession of the goods?

A. Yes.

Q. Let me ask you this: With respect to the claims of your invention of the '265, Is there anything In the claims of

the '265 patent which require an intermediary to, quote, 'check the legal title' of the good for sale?

A. No.

Q. Is there anything in the specifications or the embodiments expressed In the specifications wherein an Intermediary could check the title?

A. Yes, probably.

[356] Q. Referring to the claims of your Invention, again with respect to the '265, how does the trusted Intermediary Illustrate or tell the market that a good has, In fact, been sold?

A. Do you mean the trusted Intermediaries? The computer go-between in the '265.

Q. Yes, sir.

A. Hell. It modifies the data record.

Q. Now, what does that Dean when gnu say 'it modifies the data record'?

A. It narks the item as sold. And then notifies, there's a notification step as well that notifies the seller that the Item has been sold.

Q. Now, during opening statements you heard Mr. Randall talk about the Fleanet business plan did you?

A. Yes, sir.

Q. What was the Fleanet business plan?

A. Fleanet was the original name of the company before we renamed it MercExchange. I always loved that name. Yes, it was a Fleanet business plan. In 1995, '96, when it was still Fleanet, It vas a plan to go after target markets. I mean, the target market was obviously small stores that had a lot of things to sell on-line, like a pawn shop or a consignment store.

Q. Was the Fleanet business plan designed to be a [357] complete commercialization of your Invention?

A. No.

Q. What Is the relationship between the Fleanet business plan and the claims in your Invention. If any?

A. Very little.

Q. Is there any requirement In the claims of the '265 patent, Mr. Voolston, for a trusted Intermediary to take physical possession of the goods?

A. No.

Q. Could you explain to the Jury what a transaction processor is?

A. Cell, generically it could mean quite a few things. Could just mean a credit card terminal at a store. Our transaction processor is very specific. It is a transaction processor that is linked into these other elements of the claim. Ours is linked in because it actually processes payment on behalf of the buyer or on behalf of the seller without having to give the seller your credit card number.

Q. At the time that you disclosed a Integrated transaction processor as an element of your claims In the '265 patent, did eBag have an Integrated transaction processor?

A. What was the question again?

Q. Yes. At the time that you disclosed an integrated [358] transaction processor as an element of your claims, did eBay a have an Integrated transaction processor?

A. No.

THE COURT: Why don't we take 15 minutes. Are you at a good point?

MR. STILLMAN: I'm pretty close to being done, but I'm happy to cone back. It's your call.

THE COURT: All right. Hell, I think—I try to break about halfway In between the morning and the afternoon, and I think it would be a good time to do that.

MR STILLMAN: That's fine.

(Jury left the courtroom.)

THE COURT: We're going to have to be very conscious of that, because I understand one of the Jurors is a diabetic, and every so often needs to eat something, and obviously some

sugar, maybe, or something like that. So I've given permission for that person, so If you see somebody eating something—I don't even know who it is, frankly but If you see someone eating something, I usually wouldn't allow that, but Or. Johnson vas asked about that, and certainly we don't want anyone to have a problem. So obviously someone who Is a diabetic knows when they need something, and If we see someone eating It's because that I person needs to eat because of their medical condition.

So I'd like to break, just so we know, If we're

* * * *

[386] mean, we, I've read the patent and I saw the U.S.—that's the information that's been provided to me.

Q. You didn't read any of the articles about it?

A. Read the transcript of the Today Show.

Q. Yeah, but there's plenty of articles about it. You didn't read any other article about it?

A. No.

Q. All right. If you had known about the Nahan patent or the Today Show transcript, you would have cited it to the examiner, wouldn't you?

A. Probably.

Q. You would have submitted it to the examiner just to make sure, whether the examiner would have issued a patent or not, right?

A. Probably.

Q. And you would have been obligated to give that to the examiner, right?

A. I don't know.

Q. You don't know?

A. No. It's a claim by claim analysis, Mr. Randall. It's material to the claims. You are under a duty to disclose art. You're aware it's material to the claims.

Q. That's right. Now I'm asking you, sir, you've read that application, you filed the application for the '265, right?

[387] A. Yes.

Q. You wrote the application right?

A. Yes.

Q. You prosecuted it, right?

A. Yes.

Q. You're a patent attorney, right?

A. Yes.

Q. You've read the Nahan patent and read that Today Show transcript, right?

A. Yes.

Q. You telling me you don't know whether you would be obligated or not to disclose that as material prior art to '265?

A. Well, it's rather cumulative of the art that's in record. The Lindsey reference and the Lalonde reference were the two primary references used by the Patent Office to examine the '265. I don't see how Nahan is much closer to the core of the invention of the '265.

Q. You think that the Patent Office had everything in one system, in one system, that the Nahan patent and system taught before it? Is that what you're saying?

A. No. But for the purpose of examination, the Patent Office will often combine prior art systems to try to render your claim, what they call obvious and non-patentable. The combining of Lindsey and Lalonde is [388] actually much closer to the claimed invention than the Nahan is.

Q. It's "Nahan" by the way.

A. I'm sorry. Nahan.

Q. That's all right.

So knowing everything you know, you don't feel like you would have been obligated to disclose the Nahan system to the patent examiner in '265? Is that what you're saying.

A. No, I probably would have disclosed it in an abundance of caution.

Q. Okay. But you wouldn't have felt an obligation to do so because it was material art; is that what you're saying?

A. I said I would, probably would have done it in an abundance of caution.

Q. I understand you would have done it, but the question is, would you have considered that material art to the patentability of the '265. Yes or no?

A. Yeah, I probably would have.

Q. All right. Did you keep up, at the time you conceived of your invention, at the time did you keep up with the search agent technology?

A. At my conception?

Q. Yes.

* * * *

[394] those in a few hours of searching and reading. Do you know that?

A. I didn't know that.

Q. He didn't ever tell you that?

A. No.

Q. He said he used Lexis and Nexis search service to find them. Did you know that?

A. I did not know that.

Q. You never, the time you came up with your idea, you never went on the Lexis/Nexis—strike that.

At the time you came up with your idea, you had access to Lexis and Nexis, right?

A. Probably.

Q. That's a service that you log onto your computer and you look for articles and things like that, right?

A. Patents too.

Q. And patents also?

A. Yes.

Q. Okay. You had access to that, right?

A. Yes.

Q. You were trained at searching for prior art, right?

A. Not trained, but yes, I could search for it.

Q. At the time you came up with your invention, you conceived of your invention, you had looked at and [395] prosecuted hundreds of patents, right?

A. No.

Q. Not hundreds?

A. I don't think I prosecuted any patents when I came up with my invention. It was the first patent application I had ever written.

Q. And you didn't do any prior art searching on the Internet?

A. I'm not even sure Google was on-line in 1995.

Q. That's not my question.

A. I don't even know how you would have done an Internet search in 1995. I mean, I knew how to do Lexis and Nexis search. I knew how to get that patent database. Lexis had that. I could search that.

Q. You what?

A. I could search that.

Q. All right. So did you go on-line through Lexis or Nexis and search for articles about this new idea that you had when you came up with the software search agents?

A. No.

Q. Did you know that your expert, Dr. Palmer, said that these articles I just referred to were fairly widely read and available publications? Do you know that?

A. No.

Q. He said a person of ordinary skill in the art [396] would be aware of them.

A. Okay.

Q. You weren't aware of them, am I right?

A. I don't believe so, no.

Q. And you didn't look for any, right?

A. I don't believe so, no.

Q. Now, had you known about these articles, would you have still filed an application for this patent?

A. Definitely.

MR. STILLMAN: I don't think that's a proper question. He said he didn't know about them, and now he's being asked a hypothetical about if he'd known about them, what would he have done. But if he doesn't know them he wouldn't --

THE COURT: There's been enough questions about it. I think it's an appropriate question.

A. Definitely.

BY MR. RANDALL:

Q. You still would have filed it?

A. Definitely.

Q. But you would have cited all these knowing that they are material art, right?

A. Probably.

Q. You don't know?

A. I don't know what references you're talking about.

* * * *

[407] '86.

You've read this article a number of times, right?

A. Yes.

Q. How many times?

A. 10.

Q. All right. And you understand that this article is about the ACORN network service that was a trusted intermediary that auctioned off used collectables—sorry. Auctioned off coins in the mid '80s, right?

A. That's your characterization.

Q. Well, what did you understand it as?

A. Well, Mr. Blankley, the trusted intermediary is Mr. Blankley. He physically took the item and required that he take the item and he personally put it into his network.

In the "265 system—

MR. STILLMAN: I'm just asking you—

A. The trusted intermediary—can I—

Q. I'm just asking you about what you understood this article to mean. Not your system, just this article.

A. That is my understanding.

THE COURT: I think he's answering the question. Go ahead.

A. Mr. Blankley is the trusted intermediary. In our system the trusted intermediary is the computer go-between.

Q. Well, in your system that you described in your [408] application, somebody, a consignment node user, inspects the goods and adds value to the description, right?

A. That is one example. That is not what is in the claim.

Q. Getting back to the ACORN network, did you understand the ACORN network to be a trusted intermediary online auction system?

A. Actually Mr. Blankley was the auctioneer. This system is a lot like Leftbid. The way I understand this is that Blankley took messages from users physically, did the calculations, this is a higher bid, and then he reposted it. It's much like a bulletin board except Mr. Blankley himself is the auctioneer, and Mr. Blankley himself is the trusted intermediary.

Q. Well, Mr. Blankly—you sat through his deposition, right, sir? You traveled to Tennessee—

A. Yes, I did.

Q. Strike that.

You traveled to Tennessee, you sat through his deposition, right?

A. Yeah. I met the man.

Q. And you also traveled to Tennessee and sat through the deposition of Mr. Mintz, who also helped develop this system, right?

A. Yes, I did.

* * * *

[447] A No. I believe we did, in the declaration.

Q I'm just talking about in this case. In this case, during your direct testimony, you didn't provide any evidence to the jury of corroboration that you, in fact, came up with these inventions in the summer of '94, right?

A I don't think we put into evidence those early documents, right.

Q Okay. So the answer to my question is you didn't present any evidence corroborating your story, that you invented these concepts in the summer of '94 during your direct examination here in front of the jury, correct?

A That's essentially correct. We didn't put in those documents.

Q. All right. Let me ask you a few questions about your story, about how you invented these concepts and we'll compare it to Dr. Keller. In the summer of '94, when Dr. Keller was working at CommerceNet, you were in law school studying patent law; is that right?

A Well, I don't know where Dr. Keller was in the summer of '94. I finished my academic studies in the fall of '94, and I was actually working and studying for the bar exam in the spring of '95.

Q Well, you did read Dr. Keller's declaration in the Goto.com case about what he was doing in the summer of '94, right?

* * * *

THE COURT: It hasn't been as much of a problem as, frankly, going over the same thing over and over again. So let's just—if you need to look at the pretrial order, and frankly, Mr. Stillman, if there is an exhibit that wasn't objected to or that an objection was overruled, then it comes in. We can't keep doing this.

MR. STILLMAN: I hear you.

THE COURT: Okay. All right.

(Court recessed at 11:35 a.m., until 11:50 a.m.)

(Whereupon, the jury returned to the courtroom.)

THE COURT: Mr. Randall.

MR. RANDALL: I'd like to move into evidence Defense Exhibit 323, which is the Kupfer search agent article that we previously discussed, and Defense Exhibit 545, which is a document that we just discussed regarding the two applications, the April and November application.

THE COURT: All right.

MR. RANDALL: Thank you, Your Honor.

(Defendants' Exhibits 323 and 545 were received.)

BY MR. RANDALL:

Q Mr. Woolston, the system that you invented was going to cost a lot of money, right?

A Which patent are you talking about?

Q The '265.

A The cost to build?

[488] Q Yes.

A I think it would cost a fair amount of capital to get the energy and the time and resources to develop it.

Q And the same thing with the '176, correct?

A Well—yes. The way I disclosed it, you wouldn't build the '176 until you had the '265.

Q All right. And you were busy working at the Howrey & Simon law firm at the time you came up with these inventions?

A Yes, among other things.

Q You didn't have time to sit down and write a code, software code for these inventions, right?

A I don't know if I had the time or I didn't have the time.

Q All right. But you didn't do it, right?

A No.

Q Until you tried, you didn't know whether your system would work as described in your patent, correct?

A No.

Q That's not correct?

A No, it's not correct.

Q You had never built—at the time you filed your patent applications, you had never built an e-commerce system before, have you?

A I built a very sophisticated Voiceover X25 system, so I was confident that this could be built.

Q We can move faster if you answer my question. At the

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[490] was?

Q You had no experience at the time you filed your applications making a system, building a system to transfer ownership of an item, correct?

A All it does is modify the data record. I had a lot of experience in modifying data records.

Q You had no experience at the time you filed your applications in making a system to search for a good in a plurality of databases? You never done that before, correct?

A I had never written those software search agents, that's correct.

Q One of the things you did after conceiving your invention, you created your own company called Fleanet; is that right?

A Yes.

Q And Fleanet didn't have any employees other than yourself, correct?

A That's correct.

Q And you still—at that time, when you founded Fleanet, you still had another full-time job, right, at Howrey & Simon

A When?

Q When you founded Fleanet.

A I believe so, yes.

Q And the point of you coming up with Fleanet was to i implement your inventions, correct?

[491] A Correct.

Q It was a business plan to attract capital and people and build e-commerce systems, yes.

MR. RANDALL: Can you play clip number 175, please?

MR. STILLMAN: Excuse me.

THE COURT: Stop.

MR. STILLMAN: I don't think this is proper 3 cross-examination, to just start playing deposition transcripts.

THE COURT: It isn't.

MR. RANDALL: Okay.

THE COURT: You have to some basis for doing that. If he agrees, then there is no reason to do it.

MR. RANDALL: Okay.

BY MR. RANDALL:

Q The point of starting Fleanet was to implement your inventions, correct, yes or no?

A Not necessarily. The point of starting Fleanet was to attract capital, attract people and talent necessary to build e-commerce, any e-commerce company here in Virginia.

MR. RANDALL: I have a straight answer on the video-tape. Can I just move to that?

MR. STILLMAN: I think you got a straight answer.

MR. RANDALL: He said not necessarily. I did it to raise capital.

[492] THE COURT: Do you have the deposition, the written deposition so he could look at it before you play it on the screen?

MR. RANDALL: Let me ask the next question.

THE COURT: Go ahead.

BY MR. RANDALL:

Q You wrote Fleanet business plans to implement your inventions, correct?

A Yeah. That was one of the goals of Fleanet, was to go I build the inventions.

Q All right. That was the answer to my question. Second question was you wrote Fleanet business plans to implement your inventions, correct?

MR. STILLMAN: I think that's the same question, Your Honor. He's asked and answered that question now three times.

THE COURT: What's the difference in the question?

MR. RANDALL: The first question was he founded Fleanet, the company. You founded that to implement your inventions, and I don't know if I got a clear answer on that.

THE COURT: Okay.

MR. RANDALL: And the second question was, You wrote I business plans for Fleanet to implement your inventions, and I I still don't have an answer from that.

BY THE COURT:

[493] Q That's why you wrote the business plans for Fleanet, to implement your inventions, correct?

A That was one of the goals. And to explain the goals of the company, to attract capital and people, yes.

Q You sent a letter to Basil Hosmer talking all about your inventions, correct?

A I don't know which document you are talking about. I'm pretty sure I sent it. I'm just not sure I sent that one.

Q Can you pull up Exhibit 352, please. Now, I'd like you to look at this letter, and it's a letter on Fleanet letterhead, and it's to Basil Hosmer, Jr.

A You are going to have to enlarge that.

Q The letter starts out, Please find enclosed a patent filed April 24, '95 entitled consignment nodes. This letter outlines a business plan to accompany the consignment node invention. Do you see that?

A I see that.

Q Do you recognize this letter, sir?

A I recognize it came off a computer we had. I know this —letter was never sent because the filing date on the patent is wrong.

Q I'm not asking you right now whether you sent the letter. I'm asking do you recognize this letter?

A I recognize it. It is something off our server, yes.

Q You produced this in discovery, correct?

[494] A I believe so, yes.

Q And you have read this letter a number of times, correct?

A No.

Q Well, you read it in your deposition a number of times, correct?

A Yeah. Yes. I do believe you went through this letter in my deposition.

Q And this is a business plan outline for your inventions, correct?

A Well—

Q Or a draft?

A When you say inventions, it's kind of a little misleading, Mr. Randall. This was for Fleanet. It is a business plan for Fleanet. It's not even a business plan—

THE COURT: You need to speak up.. The jury can't hear you.

THE WITNESS: I was trying to get Basil Hosmer interested in helping me.

MR. RANDALL: Your Honor, I move Defense Exhibit 352 into evidence.

THE COURT: All right.

(Defendants' Exhibit 352 was received.)

BY MR. RANDALL:

Q Mr. Woolston, Basil Hosmer, he was a friend—he was a brother of a friend of yours; is that right?

[495] A Yes. He was a brother of Andy Hosmer.

Q And you didn't want to mislead him, did you?

A I wanted to promote the company to him and get him I intrigued in the business concept.

Q Right. You wanted to write him about your inventions to get him strike that. Why did you write this, sir?

A So get Basil Hosmer interested in helping the company build an e-commerce company.

Q And you wrote this at the time you filed your—at or about the time you filed your April '95 application, correct?

A Probably. I'm not sure.

Q You are not sure. Let me refresh your recollection with a testimony—

MR. STILLMAN: Excuse me, Judge. Why don't we just 5 move on and say—he said probably. We'll stipulate that he 5 wrote it. It's not worth going through.

MR. RANDALL: Okay. That's great. I'll take that.

THE COURT: Second stipulation.

BY MR. RANDALL:

Q Starting in 1995, you did everything you could to start a business and build the invention, right?

A I did everything within my powers. I don't know if it was everything I could have .done, but I tried, yes.

Q The statements you made to Mr. Hosmer in this letter, they were true, correct?

[496] A It was a document to get Basil interested. I haven't read this document since my deposition. Yeah, I would say that it's generally true about the Fleanet business.

Q Well, would you like me to blow this up and make sure? I want to make sure there aren't any false statements that you made to Mr. Hosmer about your inventions.

MR. STILLMAN: Excuse me. Let me object to the four of the question. I don't think it's ever been established that he sent the letter.

THE COURT: That's right.

MR. STILLMAN: So he didn't make the statements to Mr. Hosmer.

THE COURT: I think you asked and he answered that he didn't think he sent the letter, and that he maybe -- you even used the word draft.

BY MR. RANDALL:

Q Any there false statements in this document that you wrote, Mr. Woolston, about your invention?

A Well, what makes me sure that I did not send this letter to Basil is that the filing date is wrong on the consignment node.

Q I'm not asking you right now whether you sent the letter. I'm just saying are there any statements in this letter that you wrote that are false?

A The first line is false. That's not the date of the

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[502] offer you this right exclusively and that you can generate revenue by being the person allowed to post into the electronic market. So yes, it's true to the extent that Fleanet had that original marketing goal.

Q Well, you started Fleanet to implement your inventions and you wrote business plans to implement your inventions, correct?

A Fleanet was a business plan to implement aspects of it, yes.

Q Including this exhibit, correct?

A I don't know if I sent this, but I did write this around the time frame.

Q And that statement I read into the record from the fifth point there, that was accurate at the time you filed your applications, correct?

A It was accurate, that this was the marketing pitch of Fleanet that was going to give a value added proposition to small stores, yes.

Q But the point I'm really looking at here, and you know we talked about it in opening and so forth, is i.e., the post of a sale for good—I'm sorry, i.e., the post of a good for sale means it is in the hands of a trusted bailee and is for a fact available for delivery if a purchase is made. That statement was true when you wrote this document, which was at the time you filed your application, correct?

[503] A It's just like ReturnBuy. Yes, that was the Fleanet business plan goal.

Q So your answer to my question is yes, that's right?

A Yes. That was the Fleanet business plan goal.

Q After you tried to get Mr. Hosmer excited about your inventions, you tried to get others interested in your inventions, correct?

A Yes.

Q In January '96, you sent your Fleanet paper to Bob Smith at MCI; is that right?

A I don't know. If you have a document to show me, that would be helpful.

MR. RANDALL: Pull up D144. I never liked that sound.

THE COURT: That's a bad sound.

BY MR. RANDALL:

Q All right. What's up on the screen, Mr. Woolston, is a document that's exhibit—Defense Exhibit 144, and it shows a date of January 15, 1996, from you to Bob Smith at MCI. Do you recognize that e-mail, sir?

A I did correspond with Bob Smith at MCI. I'm just not sure of the date on this, but it's around the right time frame.

Q All right. So in January '96 you sent your Fleanet paper to Bob Smith at MCI; is that right?

[504] A We had telephone calls and I believe I sent this to him. I'm not sure, but yes.

Q Well, you state in your message to Bob Smith at MCI, Thank you for making time in your busy schedule to hear about Fleanet. I was very pleased to hear your insightful thoughts and comments. As we discussed, I have attached a small paper about Fleanet. Do you see that?

A Yes.

Q Okay. So you wrote this and you sent it to Mr. Smith at MCI, correct?

A I believe I wrote this, and I might have had some help from Herman Crank.

MR. RANDALL: Your Honor, I move Exhibit 144 into t evidence.

THE COURT: Okay.

(Defendants' Exhibit 144 was received.)

BY MR. RANDALL:

Q By that time, eBay had been running auctions on the World Wide Web for several months, correct?

A I don't know.

Q You hadn't written any code for your consignment node patents as of that time, correct?

A I don't know if I had or not. I had a rapid application t development platform that I was working with.

Q When you wrote to Mr. Smith, you indicated that you were

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[509] I mean, I thought being invited to join something made him feel special. It would help the small businesses feel

special, that they were getting some value from MCI if MCI builds the '265 system, basically.

Q Well, the sentence here, The market maker only allows reputable dealers to post goods for sale in the electronic market, that statement was true about your inventions, correct?

A No. It's true about the pitch I made to MCI.

Q Directing your attention to page 3, paragraph 7. You gave MCI a competitive analysis; is that right?

THE COURT: I can't read it.

THE WITNESS: I don't recall.

BY MR. RANDALL:

Q I'm directing your attention to the portion of your presentation to MCI where it says competitive analysis. Do you see that?

A Yes.

Q You wanted to be honest in what you said, correct?

A Yeah. I wanted to get a relationship with MCI. I think you start relationships with honesty, yes.

Q You didn't want to mislead them, right?

A No.

Q You didn't want them to invest money in your company based on false statements, did you?

* * * *

[513] it, which is a Web site that just takes credit cards—that a person who has his own Web site takes credit cards over the Internet does not infringe the '265 patent.

Q Well, what you say is if they don't do speculating. Using a server in a pure retail mode, e.g., no speculating. You didn't invent this pure retail mode, correct?

A No, I probably did not.

Q EBay doesn't do this speculating function of your inventions, correct?

A Yes, they do.

Q They practice that?

A Yes, they do.

Q So let me ask you this. If a business does not do the speculation function, they operate purely in a retail mode, then your consignment node invention does not cover that, right?

A If you have a Web site, that you take credit cards on your personal Web site, you don't—you probably don't practice the claims of the '265, so you probably don't infringe.

Q In December of '95, you sent a business plan to Paul Shearman Allen, a lawyer, outlining a business plan to attract a buyer or investor to your system; is that right?

A If you show me a document, I'll help you.

MR. RANDALL: Pull up D358, please.

[514] BY MR. RANDALL:

Q This is a letter dated December 17, 1995.

A Is this the signed letter?

Q To Paul Shearman Allen.

A Is this the signed one? Yes.

Q You have seen this document before; is that right?

A I believe I wrote it.

Q All right. You wrote it and you sent it on or about December 17, 1995, correct?

A I believe so, yes.

MR RANDALL: I'll move Defense Exhibit 358 into evidence, Your Honor.

THE COURT: Admitted:

(Defendants' Exhibit 358 was received.)

BY MR. RANDALL:

Q You write on the first page, You have asked me to provide a business plan and outline to attract a buyer or investor of the invention we previously discussed. Do you see that?

A Yes.

Q At that time, were you aware that eBay had been running for months, up and running on the World Wide Web for months?

A I still don't know if they were up and running for months at this time.

Q Did you want to be as honest as possible in making these statements to Mr. Allen about your Fleanet inventions?

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[517] A Actually, there is two versions of it. There is one version that's for big sellers that provides an inventory software piece that has a bar coding feature in it that allows them to move a lot of goods in and out of the electric market, and there is a simpler claim version of the posting terminal that doesn't have the bar coding, reader, scanner, printer.

Q You provided Mr. Allen with information about how much it would cost to operate the posting terminal, market maker) system each month, didn't you?

A I might have.

Q Can you go to the monthly overhead section. Here at Table 2, at Table 2 you provide Mr. Allen with the information about the monthly operating cost of a posting terminal market maker system, and you list as this overhead, monthly overhead of $114,100, correct?

A Yes. It included power, floor space, staff, bandwidth.

Q Is that correct, sir?

A Yeah, that's what I thought.

Q And that information that you provided to Mr. Allen indicated that it would cost 80,000 a month for staff people to receive the goods and vouch for the goods and do all the other things that had to do with running a posting terminal service, correct?

A That must have included a sales staff. That seems like a pretty big number, 80,000 a month.

[518] Q Well—I'm sorry. Were you finished?

A Yes.

Q That overhead cost for staff would include the functions of those people receiving the goods and vouching for the goods and doing all the other things that you would have to do to run a posting terminal service, correct?

A No.

Q It didn't include all of those?

A No.

Q What did it include?

A I believe—and it's been a long time since I have read this document. This was the company. This was to fund the company. We thought we needed a sales for—of course, the computer go-between had to run and maintain that. He probably i had to run and maintain the software, so you need some i engineers. We had—that's a pretty big number. That must have been a pretty big sales staff number.

Q You already have sales cost listed there, sir, don't you, as $10,000?

A That's cost. That wasn't salaries, I don't think. It's travel, meals, cost of sales.

Q And what would this sales staff for $80,000 a month that's what you say that's for. The staff, you say that's a sales staff figure?

A I don't really recall one way or the other, Mr. Randall. [519] It seems like it would have to include a sales staff in there.

Q But what would the sales staff be doing?

A Be selling the service to small stores, going to pawn shops, knocking on the doors saying, hey, we got this great value added proposition for you. We have electronic market. You can have access to markets outside your own geography vii the Internet.

Q You were marketing here a posting terminal and market maker system that included $80,000 a month for sales staff?

A Well, the fact—

Q Go ahead.

A No, go ahead.

Q Was that the staff to handle the goods and inspect them I and deal with the goods that you were going to post on the terminal, post on the system?

A No. That's for the small store owner. The small store owner ran the posting terminal.

Q And so the small store owner—your system was the small system owner would pay $80,000 a month to have people going out and have to sell things?

A No. The business was—I think this is the Fleanet business plan. Fleanet was going to go sell the service to small business owners and say we have this value added proposition that you can log into our computer go-between and it will help you reach markets you couldn't otherwise reach. [520] And the pitch went further, that we can offer this to you on an inclusive basis, why you want to sign up, pay the fees.

MR. RANDALL: Let's go to page 3, paragraph 5, under operating procedures. It's under franchise relationship between market maker.

BY MR. RANDALL:

Q I'd like to direct your attention specifically to the section that says the franchise relationship between the market maker and the small business. Do you see that?

A Where? Halfway down?

Q It's a heading. It says franchise relationship between the market maker and the small business.

A Yes.

Q About three lines down over to the right-hand side, I'd like to direct your attention to this sentence. It says, Operating procedures and rules governing the posting and de-posting of goods must be developed alongside the posting terminal software. The fee arrangement, loss of franchise enforcement provisions, legal relationship between the parties, and alloca-

tion of risk must be incorporated in the franchise agreement. Do you see that?

A Yes.

Q And that was all true, correct, when you wrote that?

A Yeah. I thought that we could go brand a small business, like put a sticker in the window, like we accept American [521] Express that said Fleanet, and that—because the computer go-between is processing the transactions, handling the money, that we needed a way to have an understanding with the store what happens if they get a bad credit card, who is going to pay for that.

Q I'm not talking about stickers on the windows. I'm talking about your statement here that says, for instance, Business methods such as approved consignment contract forms, bailment agreements, risk disclosure forms, waivers, copyright permission and the like must be provided to the franchisees to assure orderly and legal transactions. Do you see that?

A Yes.

Q That was true when you made it, right, that statement?

A Well, it was true that we wanted to provide a package to the small stores and say, look, this is a complete form book. Somebody walks in, you can have them sign up. These are the terms, this is your brand. We wanted to provide the value added proposition to the small store, yeah. So that was true in the business plan.

Q And those procedures had to be developed at that time, correct?

A Yeah. I wasn't much of a businessman. But that was the business idea, that we could go to these small stores and give them a value added proposition.

Q But those procedures in that paragraph, they had to be [522] developed, right? They must be developed?

A Does it say must be developed?

Q It says, Operating procedures and rules governing the posting and de-posting of goods must be developed.

A Yeah. Rules to give the small business owner, to explain that that electronic market is different. It's not just an advertising site.

Q Right. And your patent application didn't explain those rules and procedures, did it?

A Yes, it did.

Q Then why did you still have to develop them?

A Well, the patent application is written with an audience of one of ordinary skill in the art, to presume to have certain knowledge, like modifying the data record. But that had ramifications to explain to the lay person such as a small business owner, to explain it in a way that it made sense, that we were giving a value added proposition. This is not advertising in the newspaper. It was different. It was new, it was unique. It was something worth paying for. Those were the things we wanted to put together.

Q There was no way for, for instance, a computer programmer without any legal training to come up with those rules and procedures, right?

A Why not?

Q Well, you hadn't included them in your patent, correct?

* * * *

[532] PROCEEDINGS

(Proceedings resumed after luncheon recess as follows:)

(The jury entered the courtroom.)

THE COURT: Hope everyone had a good lunch. Mr. Randall?

MR. RANDALL: Thank Your Honor.

CROSS-EXAMINATION (Cont'd.)

BY MR. RANDALL:

Q. Mr. Woolston, during the 1996 and 1997 time frame, you made a number of efforts to contact or to find business

partners to help with you this consignment node system, correct?

A. I believe we were trying to raise capital then, yes, or find partners.

Q. You contacted a company in 1996 called KPCB Java; is that right?

A. That was actually a fund sun by Kleiner, Perkins & Byers.

Q. All right. You contacted them, gave them a copy of your business plan to see if they would be interested in investing, right?

A. I think we sent them the patent application and the business plan, yes. We sent that to California.

Q. And they didn't invest any money in MercExchange, [533] right?

A. No.

Q. They didn't partner with MercExchange, correct?

A. No.

Q. By August of 1997 you had left Howrey & Simon, the law firm, and went to another firm in Washington, D.C., Fish & Richardson; is that right?

A. Yes, I believe I was at Fish & Richardson in 1997.

Q. Why didn't you instead just write the code to start your business?

A. Capital. Lack of capital.

Q. Did you know at the time, in August of '97, that eBay was on the World Wide Web conducting on-line auctions?

A. I don't know if I knew by then or not. I think it was around that time frame I became aware of eBay.

Q. Now, you filed your first application in April of '95, correct?

A. No. I take that back. I, I don't think I was aware of eBay in '97.

I'm sorry, go ahead.

Q. All right. You were up to speed and one of extraordinary skill in the art at the time you filed your application in April of 95, right?

A. I thought in 95 I was one of extraordinary skill in the art, yes.

[534] Q. And you continued, through 1996 and 1997, to keep up with the state of the art as it related to your Inventions, did you not?

A. I don't know if that's necessarily true or not.

Q. You don't know?

A. No. Technology has a shelf life. I was getting further out of engineering school and I wasn't in a programming job.

Q. But you continued to file patent applications, right?

A. We filed additional patent applications in '99, 1999.

Q. All right. Did you keep up with the state of the art after filing your application in '95?

A. I, I don't think so. I didn't actively go out -I didn't have a programming job.

Q. And you never saw eBay or heard of eBay on the World Wide Web even as late as August of '97?

A. Maybe. I just don't have a specific recollection.

Q. In 1997 you continued to look for investors and partners who would help you with this consignment node system, correct?

A. Yes.

Q. You contacted a company in June of '97 called Wavelynx, L.L.C., correct?

[535] A. He was a—yes. I contacted a guy and met with him over in Old Town, Alexandria.

Q. And that company did not partner with you, right?

A. No They were a small company. They didn't have capital either. No, we did not partner with them.

Q. They didn't have any money?

A. No.

Q. Why were you contacting them about your invention?

A. Well, they, they had a newspaper article, I think it was

in the Washington Post, about some activities they were doing, so I contacted them, tried to get them interested in working on MercExchange.

Q. And nothing came of that contact, right?

A. No.

Q. You contacted Adams-Eliot, L.L.C. in August of '97, correct?

A. Yes.

Q. And they didn't partner with you, right?

A. Well, Adams-Eliot, L.L.C. is a friend of mine's company. It's a one man company. I sent him the business plan and a cover letter to see if I could get some interest, but I never got a partner out of it, no.

Q. You never got a partner and didn't develop any interest in your system, right, with respect to that contact?

[536] A. Bill batch was very interested in helping, but we didn't have any capital. We didn't find any capital.

Q. You contacted, in October '97, J.G. Fogg & Company, Inc. right?

A. I think so.

Q. Gave them your business plan, right?

A. We might have.

Q. Okay. But you didn't get any investment from them or any partnering deal from them either, did you?

A. No. I think they were in Massachusetts.

Q. In November of '97 you wrote Parthenon Group, gave them your business plan—

A. Right.

Q. —right?

A. Yes.

Q. And you didn't partner with him, and you didn't get any money from them either, did you?

A. No. They didn't invest.

Q. In March of—strike that.

In November of '97 you wrote George Mason University and gave them your business plan, right?

A. Yes.

Q. Nothing came of that, either, right?

A. I wouldn't say nothing. I got in touch with the Redmon Group through George Mason University and I met with, [537] I think it was Mr. Redmon. He had a small company over in Old Town Alexandria.

Q. They didn't Invest and they didn't partner with you, correct?

A. They were very interested in doing it, but they didn't have any capital either. So they did not. We did not, we weren't able to pursue it together.

Q. In June of '98 you wrote the Washington Antiques Center and gave them your business plan, right?

A. Yes.

Q. And they weren't interested in giving you money or partnering with you either, were they?

A. No.

Q. Throughout this time frame, through 1996 through 199, you didn't write any software code to implement your consignment node inventions, did you?

A. Probably correct.

Q. You made no effort whatsoever to try to build your system, did you, during that time period?

A. No. We made a lot of effort to find venture capital in Virginia, to find people willing to partner here in Virginia.

Q. And no one did, right?

A. No. We were unsuccessful.

Q. And that wasn't because eBay was out there right? [538] Because you hadn't even heard of eBay, correct?

A. I don't know if I had heard of eBay or not.

Q. But in all these meetings that you had with all these people, no one ever mentioned eBay, right?

A. Probably not. I don't think any of us had ever heard of eBay.

Q. All right. So your failure to develop more money or partners during this time period, from 1996 to 1998 had nothing to do with eBay, right?

A. I don't know. I can't ascribe the motives of the California venture firms we solicited, the Massachusetts venture firms. Maybe they knew something I didn't.

Q. By the end of 1998 you had moved to a third law firm, the Hunton & Williams law firm, correct?

A. I think that's about the time frame.

Q. And you still hadn't tried to at least build your system in terms of writing code, right?

A. I personally hadn't written code. We were still, I believe, seeking partners.

Q. Right. But by the end of 1998, neither you nor anyone on your behalf had begun or even attempted to write code for your system, right?

A. No. I said I began writing code in '94. I had a RAD tool, I did a GUI for it, but I stopped. I didn't have time to do it in '94—or I'm sorry, '95. So the answer to [539] your question is I did a little bit in '95, but I wasn't able to find other technical partners.

Q. All right. So from 1995 through the end of 1998, either neither you nor anyone on your behalf attempted to write code to implement your inventions, right?

A. I don't know if I was still trying to do it in late '95. Probably not.

Q. By the end of 1998 you heard of PriceLine.com, correct?

A. Yes. By the end of '98.

Q. And that was the name-your-own-price system right?

A. Yes.

Q. You would log on, name your own price, and maybe some airline would accept it, right? That's basically how it worked?

A. It's a, it's a little more technical than that.

Q. Okay. You believe that you invented the name-your-own-price idea, don't you, sir?

A. No.

Q. You believed that the name-your-own-price system implemented by Priceline was described in your patent, don't you?

A. It interfered—they had a patent to issue, the '207 patent, that interfered with one of the, one of the modes in our application, yes, I believe that.

[540] Q. And you stated that when you read that Price-Line had a patent, right?

A. Yes.

Q. And it issued, right?

A. Yes.

Q. Got through all the procedures at the Patent Office and issued, right?

A. Yes.

Q. And you stated that when you read that patent, the PriceLine patent, you were shocked that this examiner had not declared an interference between your patent and their patent, correct?

A. Probably.

Q. Well, that's what you wrote, right?

A. I don't know.

Q. And an interference between your patent and the PriceLine patent, what does that mean, sir?

A. Because we were earlier in time, the Patent Office issued a patent to PriceLine that was filed 16 months after we filed ours.

And interference, because we were trying to commercialize our invention, there was the potential that one of the nodes of our invention could have infringed the PriceLine patent. And interference is a procedure at the Patent Office where you can submit documents, make your [541] petition to the Patent Office and say these two patents are tangled, we need to award priority and untangle them.

Q. So you thought the Patent Office, during the prosecution of the PriceLine patent, should have discovered your application as prior art and declared this interference, right?

A. Our patent applications weren't prior art at the time to PriceLine. The European patent application probably was prior art to PriceLine. I'm not an expert on interference practice.

Q. All right. But you were shocked, you didn't believe the Patent Office had done, had done their job properly with respect to these two applications that were pending at the same time in the Patent Office, right?

A. It's not really a matter of doing their job correctly, it's just a procedure that's set up at the Patent Office you can provoke, you can invoke, and have the patents untangled.

Q. The after some further—strike that.

You contacted PriceLine and asked them to partner with you, didn't you?

A. Yes.

Q. And you stated after some further investigation, you contacted PriceLine to propose that MercExchange and PriceLine work together to fully develop the technology, [542] right?

A. Yes.

Q. And after you explained your patent and your inventions to PriceLine, they offered you—and this is your words—they offered you a peppercorn for the entire intellectual property portfolio for MercExchange, right?

A. Yes. It's been my impression that big companies don't like to deal with the small inventors.

Q. That's not my question. My question was that after—

A. That's correct. That's correct. It was a very low offer.

Q. What was it?

A. I don't remember.

Q. You can't remember what the offer was?

A. It was very low.

Q. That was the first offer you'd ever received for your

intellectual property rights, and you can't remember what it was?

A. No.

Q. That was the first offer you had ever received for your intellectual property rights, correct?

A. Probably.

Q. And PriceLine had heard your explanation of all of your intellectual property rights and had done their [543] homework at the time, correct?

A. No, I don't know that.

Q. Okay. The interference that you filed in 1998, you asked the Patent Office to give you the PriceLine patent claims, right?

A. It's more complicated than that. I'm not an interference expert. It has to do with setting up account. It's like a phantom patent claim that covers the two and then they toy to untangle them.

Q. But you thought that you, based on your application, rightfully owned the PriceLine patent claims, correct?

A. No, that's not exactly how it—that might be an inartful way of putting that. I might have even said that at one. But the problem was that we were still hopeful that we could commercialize the invention, and there was a patent out there, PriceLine patent that we could have been infringing. So to protect our rights, we had to file this paperwork with the Patent Office to say please untangle these two patents.

Q. You complained to the national media that PriceLine was ripping off our intellectual property and that you, not the PriceLine entrepreneur, Walker, had invented the name-your-own-price idea, didn't you?

A. I don't know if I said that or not.

[544] Q. You did talk to the national media about this PriceLine interference, correct?

A. Yes.

Q. And at the time when you received this coverage, you also told the Wall Street Journal that you did not believe on-

line auction sites like the popular eBay, Inc., San Jose, California infringed on your patented technology, correct?

A. At the time we only had the '265 patent, and yeah, at the time I don't believe eBay did infringe. I still believe that, at the time.

Q. And you told that to the Wall Street Journal and they reported it and put it in their newspaper, didn't they?

A. No, I don't believe I exactly said that.

Q. What did you tell the Wall Street Journal about eBay not infringing on your patented technology?

A. I don't really remember. I remember the quote coming out in the paper and I said that was awful garbled. I can't believe that was what I said to the reporter.

Q. And the quote was "Mr. Woolston said he didn't believe on-line auction sites like the popular eBay, Inc., San Jose, California, Infringed on his patented technology."

That was the quote, right?

A. No, I don't think so.

Q. Okay.

[545] A. Can I see the article?

MR. RANDALL: Sure.

Can I put it up, Your Honor?

THE COURT: Hm-hmm.

MR. STILLMAN: Can we hand it to him first? Can we hand it to him before we start showing it to the jury? Because this was a document that was excluded in the pretrial order.

THE COURT: Well, it may have been excluded, but I think at this point it's based on his answer. Certainly he can look at it.

MR. STILLMAN: Yeah, that's what I'm saying. Can he look at it before we show it?

THE COURT: Sure.

MR. RANDALL: Okay. We can turn that screen off and his screen can go on and your screen can go on, Your Honor.

THE COURT: That's fine.

BY MR. RANDALL:

Q. Do you see that? I believe it's about in the middle of your screen, Mr. Woolston.

A. Yes. The quote is "Mr. Woolston said he didn't believe on-line auction sites like the popular eBay, Inc, San Jose, California, infringed on his patents technologically."

[546] Q. All right. That was reported in the Wall Street Journal, correct?

A. Yes, it was.

Q. And that was dated January 13, 1999, correct?

A. If I can see the date I'll—

MR. RANDALL: Can I put this on the screen now, Your Honor?

THE COURT: Just that portion of it.

BY MR. RANDALL:

Q. See the date of the Wall Street Journal dated January 13, 1999 Mr. Woolston?

A. Yes.

Q. Okay. You did speak to the Wall Street Journal on ox about that date, correct?

A. Before that date, yes.

Q. You did speak to them about whether or not eBay infringed your patent technologically, correct?

A. I spoke to the reporter who had the byline, yes.

Q. And you talked to them, you talked to the reporter about whether or not eBay infringed your patent technologically, correct?

A. No, I don't think I said that. That's where the quote came up muddled.

Q. Did you say anything to that reporter that you believed would indicate that eBay did not infringe your '265 [547] patent at that time?

A. Yes. I believe that he asked me, well, this looked exactly like eBay. Does eBay infringe? And we had the '265 patent and I said, you know, I don't think they infringe the '265 technically because they don't have a transaction processor. Integrated into the system.

Q. And you believe that today? That eBay did not infringe your '265 patent in 1999, correct?

A. Yes. I believe they do not Infringe the '265 patent in January 1999. I could be wrong. That's what I believe.

Q. You referenced a company called Aden in your direct examination, right?

A. Yes, sir.

Q. Aden chief executive officer Mike Luther called you within a week after this Wall Street Journal article came out regarding PriceLine, right?

A. Yes, sir.

Q. And he told you all about the Aden Enterprise company, right?

A. He told me about Aden Enterprises and himself.

Q. He told you—

A. Yes.

Q. Did he tell you that Aden had never made a profit as of that date?

[548] A. I believe so.

Q. Did he tell you that Aden had a significant debt and litigation in January of 1999?

A. Yes. He explained that to me, that there was a SmartPay credit card processing company that was in there that was undergoing litigation and liquidation in Miami, I believe. That was the litigation—

Q. Okay. Just yes or no.

Did he tell, did he inform you in any way in January of 1999 that Aden had significant debt and litigation?

A. I don't know if it's January or not, but yes, at some point he told me.

Q. Well, you entered into an agreement with Aden Enterprises and MercExchange on January 19, 1999, didn't you?

A. If that's the date you have on an agreement then that's probably the date, yes.

Q. You don't know?

A. I don't know the exact dates, no, sir.

Q. That was the first patent license agreement that you ever entered into, wasn't it sir?

A. Well, the patents had been assigned to MercExchange. That's technically the first one. This is the first licensing opportunity we had, yes.

[549] Q. This is the first company that ever agreed to any license arrangement with you for your intellectual property rights, right?

A. Well, what we found was that after the patent issued in December of '98, it was easier to get licenses, and yes, we had our first license. I believe it was January 19, I'm just not 100 percent positive on dates, Mr. Randall.

Q. Have you read the January—you understand in January 1999 you had a license agreement with Aden Enterprises, right?

A. I won't refute you if you have one dated January 19, 1999. I just don't have the dates from memory.

MR. RANDALL: Do you want to pull up Exhibit 283?

BY MR. RANDALL:

Q. Is that your signature on the last page of this exhibit, sir?

A. Yes, it is.

Q. All right.

Looking at the front page of this agreement, do you recognize this now, sir?

A. This looks like a letter agreement. The first agreement.

Q. Dated January 19, '99, right?

A. Yes.

[550] Q. Go to Paragraph four. You signed this agreement on or about January 19 of 1999, correct?

A. Yes, I believe so.

Q. Are you guessing, or did you do it?

A. Well, the document—you asked me if that's the date by my signature, yes. On or about January 19th, 1999.

Q. Sir, I don't want you to guess up here. This is a really important case. I want you to tell me the best recollection that you have. Do you remember entering into an agreement with Aden Enterprises in January of 1999?

A. Yes.

Q. Okay. And this is it, correct?

A. I believe so.

Q. All right. It states here in Paragraph 4, "The company has significant debt and litigation, although I have guaranteed it in entirety and indemnified the company for all litigation."

Do you see that?

A. Yes.

Q. So you were put on notice at the time that you entered into this agreement that Aden was laboring under significant debt and litigation, correct?

A. Yes.

Q. And pursuant to this agreement, you were going to provide an ownership interest in MercExchange to Aden, and [551] Aden was going to provide some stock to you, correct?

A. I need to read it. I'm not sure if they were taking an ownership interest in MercExchange in this agreement or not.

Q. Let me direct your attention to another portion of this Paragraph 4.

It states that "Aden is a publicly traded company on the OTC bulletin board.

That means the over-the-counter bulletin board, right?

A. I believe so, yes.

Q. Okay. "It is not in compliance for reporting purposes at the present time."

Do you see that?

A. Yes.

Q. That means it's not in compliance with the law, right?

A. I'm not a securities attorney, so I don't really have a legal opinion on it.

MR. STILLMAN: Excuse me. That's an improper question. That's not what it means at all, and Mr. Randall knows that. And Mr. Randall—

THE COURT: He's answered the question.

MR. STILLMAN: Okay.

THE COURT: Next?

[552] BY MR. RANDALL:

Q. Mr. Woolston, what did you do, if anything, to investigate whether they were in compliance with the corporate laws governing companies like Aden?

A. I did my diligence on Mr. Luther and Mr. Dan Koch from Omaha as individuals. They had made a tremendous amount of money from a company called HomeStore.com—

Q. I'm just asking you about what you did to determine if they were in compliance with the law.

A. I'm telling you what I did as my diligence. Can I finish my answer?

Q. Sure.

A. Mr. Koch and Mr. Luther had made a tremendous amount of money, at least on paper, from a company called HomeStore.com, and they had personally indemnified Aden Enterprises, and they said they were going to make it compliant with reporting requirements. That's the extent of my diligence.

Q. They said they were going to make it compliant? That's what it was?

A. Yes.

Q. And what efforts if anything—strike that. What did mercExchange get out of this license agreement?

A. Can I take a moment to look at it?

[553] Q. Sure. Direct your attention to Paragraph 4 specifically.

A. I think it's the next page.

Q. Okay.

A. Next page, please.

Q. The license under 6.1, the MercExchange technology means the '265 patent and all related applications, correct?

A. Yes.

Q. And under Paragraph 7, you agreed to a patent license to Liberty Travel, correct?

A. In the travel services field of use.

Q. Right.

A. Yes.

Q. Okay. And in Paragraph 9, what you, MercExchange, received in return for that license was four million shares of restricted stock. Do you see that?

A. Yes.

Q. What did you do, if anything, to determine what the value of that stock was at the time you licensed your patented technology to Aden?

A. Looked at the price that it was trading at.

Q. Did you ask Mr. Luther how much money or how much revenue Aden Enterprises was making at the time?

A. I don't remember now.

Q. Did you ask Mx. Luther what the expenses of Aden [554] Enterprises were in 1999?

A. No.

Q. Did you do any due diligence whatsoever to determine how much expenses Aden Enterprises had in 1999 ant how much income they had in 1999?

A. No, other than talking to Mr. Luther and Mr. Koch.

Q. Well, in fact, sir, you knew, did you not, that at the time you signed this license agreement, that at that time you knew that Aden Enterprises had $98,000 in income for 1999 and they had $338,000 in expenses in 1999. You knew that, right?

A. No.

Q. Did you read Mr. Luther's deposition testimony, sir?

A. I think I read a little bit of it.

Q. Did you read his testimony about the expenses and income of Aden Enterprises in 1999?

A. No.

Q. You didn't read that?

A. No.

Q. And you never found out, right, by the time you signed this license agreement, right?

A. I don't, I don't believe I knew, no.

Q. And what if anything did you do to determine whether those shares of stock that you might receive were [555] actually legitimate and legally issued?

A. Nothing. Mr. Luther had securities attorneys.

Q. You never received any royalties for this patent license agreement, correct?

A. I don't know. I need to read the rest of it.

Q. Well, let me ask you this: Did Aden Enterprises ever develop a product that practiced your inventions, such invention, such that you had to pay them—such that they had to pay you royalties?

A. They had paid some license issue fees, but we were never paid, I don't believe we were ever paid royalties per se. We were paid license issue fees, which I think they were counted as royalties.

Q. At this time, January 1999, you were still working at Hunton & Williams, correct?

A. Yes, I believe so.

Q. And Aden was a Hunton & Williams client, right?

A. Not at this time, no.
Q. Are you sure about that, sir?
A. Very sure.

I think this agreement actually made them a client. It made them a partner with MercExchange.

Q. You were doing work for Aden Enterprises while you were at Hunton & Williams, right?
A. No. [556] Well, yes. Yes, as an attorney.
Q. Well, you stated in your deposition, I asked you the question, "Were you doing work for Aden Enterprises while you were at Huston Williams?

"Answer: Yes. I think. I think you could say that. Yeah.

"You were?

"I think so, yeah.

"You were their attorney?

"Answer: I believe so, yes."

Does that refresh your recollection?

A. Yes.
Q. Okay. So while you were at Hunton F. Williams, you were representing Aden Enterprises, right?
A. Yes.
Q. And you entered into this agreement with Aden Enterprises on behalf of MercExchange, right?
A. That was before they were a client.
Q. After you entered this January 1999 agreement and while you were still at Hunton Williams, you represented Aden on a whole host of issues, right?
A. I don't know about a whole host. It was a—
Q. How about a whole raft of stuff?
A. Maybe I said that in the deposition.
Q. Okay. And while you were an attorney at Hunton [557] Williams, you represented MercExchange also, right?

A. Yes. But this agreement allowed the company to go hire its own attorneys.

Q. So while you were an attorney at Hunton & Williams, you represented both MercExchange and Aden, right?

A. I believe so, yes.

Q. In April of 1999 you entered into a new agreement with Aden Enterprises, right?

A. Probably.

Q. And you were involved in these negotiations, right, sir?

A. Probably. Definitely. If that was an agreement, I was involved with it.

Q. And at the time of this April 1999 agreement, you owned a significant portion of MercExchange, right?

A. Yes.

Q. And you also owned a significant portion of Aden Enterprises, right?

A. I don't know. Could be.

Q. Could be.

You were also Aden's lawyer at the time too, correct?

A. Yeah. I had a relationship with Aden. I guess you would consider I was its lawyer, its advisor.

Q. Right. In April of 1999 you were working at [558] Hunton Williams, you were representing Aden and you owned Aden and you owned MercExchange, right?

A. Yeah. I just have a hard time separating out giving business advice to Aden versus putting them in touch with or giving them legal advice. It was all mixed together.

Q. Yeah. I have the same issue.

So then in April of 1999 when you signed this agreement, you were negotiating for yourself against your own client, Aden Enterprises, but you also owned some of that client in terms of stock, right?

A. Which April agreement are you talking about?

Q. The April 1999 agreement.

A. Can you show it to me?

Q. Is that going to assist you in answering my question?

A. Yes.

Q. I'll move on.

You left Hunton & Williams and you joined Aden Enterprises in August 1999, didn't you?

A. Yes.

Q. In fact, you signed an agreement, an employment agreement with Aden Enterprises in August of 1999, didn't you?

A. Yes. Probably.

[559] Q. Probably?

A. I just don't have all these dates fixed in my head. But yeah, that's, that time frame sounds right.

Q. Would you like me to refresh your recollection with your videotape testimony?

A. I don't think you were putting the document in front of me in my deposition either, so I don't think it's going to help me. If you have the employment agreement, I'm happen to tell you the date on the agreement.

MR. STILLMAN: Excuse me. I've tried not to object, but I don't see what the relevancy of all this is to a patent infringement suit. So I object on the basis of relevancy.

MR. RANDALL: He introduced a series of Aden Enterprises license agreements claiming that those represent a damages figure. They are seeking an enormous—

THE COURT: Okay. Wait a minute. Just a second.

MR. STILLMAN: If he's trying to establish that there was a related party relationship between Mr. Woolston and Aden at the time the license agreement was entered into, I'll stipulate to that. There was.

MR. RANDALL: Your Honor, I think the jury needs to hear the evidence. If he wants to withdraw those license agreements, he can withdraw the license agreements.

THE COURT: Why don't you go into the jury room [560] for a second, please?

(Jury left the courtroom.)

THE COURT: I tried my very best not to have to do that. Now let's get on with it. What is the issue? Why is it relevant?

MR. RANDALL: The issue is, Your Honor, he is testifying—they have put into evidence these license agreements claiming that they are arm's length transactions; that these are fully negotiated arm's length transactions between MercExchange on one hand and Aden on another; between MercExchange on one hand and various Aden subsidiaries. They form the core of their damages case in this case. What they argue is that those license agreements between Aden and MercExchange, Leftbid and MercExchange and Cheapfares and MercExchange, a number of these license agreements, all support their reasonable royalty in this case as arm's length transactions between MercExchange and these other companies.

In fact, and we've argued throughout this case, that they're not arm's length transactions; that Mr. Woolnton was on both sides of the table. He had, he was an officer in both companies, he was an owner of both companies. These are nothing more than sham agreements intended to use later in litigation. In fact, there is an agreement in place for them to sue eBay in the 1999 time [561] frame as well. So at a time when they had their targets fixed on eBay, two companies with an ownership interest in the lawsuit, with an ownership interest in each other, are cutting these license agreements back and forth, numerous ones, and their damages experts are relying on them.

THE COURT: Okay.

MR. STILLMAN: Mr. Randall is right in part and wrong in part. They are clearly not—

THE COURT: Does that mean the firm has—

MR. STILLMAN:—arm's length transactions.

THE COURT:—reversed employees?

MR. STILLMAN: I agree with him. They are not, and I've never contented that they are arm's length transactions. They are clearly related parties. As a matter of fact, I brought that out in direct, that these were related party transactions because Mr. Woolston was an officer both in Aden and in MercExchange at the time. And so I've never contented otherwise, and I would stipulate to that fact and we can move on and get things going to the things that are relevant.

It's also wrong to say that we're offering this license agreement to prove a reasonable royalty. It is relevant to the consideration of what a reasonable royalty is, because under the Georgia Pacific factors, anyone who establishes one has to look at all of the license [562] agreements—

THE COURT: Right.

MR. STILLMAN:—the company has. But our expert will tell you, yeah, I looked at it and I saw that it was a related party transaction. And so that obviously has an effect on it. And he will say that. But this is going on much too long. It's not relevant.

MR. RANDALL: Your Honor, we brought a motion in limine on this and we wanted to exclude it for this very reason: that it is not an arm's length transaction, it doesn't mean anything, and yet they resisted that, number one. But number two, their damages experts are relying on this, and I believe their damages experts have said that they believe that these were arm's length transactions. I can find documents

and pleadings and expert reports that will indicate that they argued that these were arm's length transactions. That Mr. Luther—

THE COURT: "They" meaning who?

MR. RANDALL: MercExchange.

THE COURT: All right.

MR. RANDALL: I'm not going to go into this much further, but I think the jury needs to hear what type of relationship existed between these companies. Particularly the ones with respect to the license fees.

THE COURT: How many companies are you talking [563] about?

MR. RANDALL: What's that?

THE COURT: How many companies are we talking about?

MR. RANDALL: It's Aden and it's LeftBid. I think there's one other. But I don't anticipate much more on this, but I've got to walk through the agreements that they are relying on.

And by the way, this agreement in January of 1999 between Aden and MercExchange was the only agreement that was entered into between Mr. Woolston and MercExchange and Aden where he was not at that time a co-owner, co-officer of both companies. In the April agreement he was, the October agreement he was.

THE COURT: Anything else?

MR. STILLMAN: No, Your Honor, the only thing I would say is if we have continued—contended that this is anything other than a related party transaction, I'm not aware of it. Because I would never have agreed to do that. It is clearly a related party transaction. Related party transactions occur in public corporations all the time. They are footnoted in the financial instruments.

I'll stipulate, I'd offer that stipulation today, that it is a related party transaction.

THE COURT: Objection's overruled.

[564] MR. RANDALL: Thank you, Your Honor.

(Jury returned to the courtroom.)

THE COURT: Quickly, Mr. Randall.

BY MR. RANDALL:

Q. Mr. Woolston, when you joined Aden Enterprises as an officer of that company, did you care which company you worked for, whether it was Aden or one of its subsidiaries?

A. No, not particularly.

Q. All right. And you joined Aden Enterprises in August of 1999 as their chief technology officer and as their general counsel, correct?

A. Yes.

Q. And you entered into a series of license agreements with Aden Enterprises while you were the chief technology officer of Aden, and you were also the general counsel of Aden and a co-owner of Aden and an owner of MercEx change?

A. Right. Yes.

Q. And those are these agreements that I understand that you're relying on, in part, for your damages theory in this case, correct?

A. No.

I don't understand that.

Q. Let me ask you something: Do you understand the term arm's length transaction?

[565] A. I believe so.

Q. And what's your understanding of that, sir?

A. It's like you and I, as total strangers, negotiate for the best bargain at arm's length. Each representing themselves.

Q. And these agreements between MercExchange and

Aden Enterprises, they were license agreements for your patents, right?

A. Yes.

Q. And because they were entered into while you were general counsel and chief technology officer and co-owner of Aden on one hand, and an owner of MercExchange on the other, they were not arm's length transactions, were they sir?

A. That's correct. They were related party transactions.

Q. And at that time you were serving as managing member of MercExchange, correct?

A. Yes.

Q. And you've always been the managing member of MercExchange, correct?

A. Yes.

Q. Which means that you're the CEO and president, right?

A. Yes.

Q. And you had a fiduciary duty do you not, to your [566] partners and your employees?

A. Yes.

Q. As an Aden officer, you were involved in the decision to form Aden subsidiary LeftBid, correct?

A. Yes.

Q. You formed LeftBid in October of '99, sight?

A. Yes.

Q. And your company, MercExchange, received a percentage of ownership of LeftBid, correct?

A. Yes.

Q. And you're LeftBid's chief technology officer, correct?

A. Yes.

Q. MercExchange and LeftBid entered into a patent license agreement in October of '99, correct?

A. Sounds right, yes.

Q. And at that time you were the general counsel and you were the chief technology officer and a co-owner of Aden, right?

A. I wasn't general counsel then, but I was still an officer, yes.

Q. Okay. You were—at the time you entered into this agreement between MercExchange and LeftBid, Leftbid was a subsidiary, or a child, if you will, of Aden Enterprises, right?

[567] A. Yes.

Q. And at the time MercExchange and LeftBid entered into this October '99 patent license agreement, you were an owner of MercExchange and the president and CEO of MercExchange on one hand, right?

A. Yes.

Q. And on the other hand you were the chief technology officer and co-owner of LeftBid?

A. Right. The agreement actually gave ownership to MercExchange. But yes, I was the CEO of LeftBid. It was a related party transaction.

Q. And you were also a co-owner and officer of LeftBid's parent, Aden, correct?

A. Yes.

Q. And part of that agreement with LeftBid was this nexus requirement, right?

A. Yes.

Q. And the nexus requirement between Aden—strike that.

The LeftBid and MercExchange license agreement required LeftBid to build and implement your inventions, correct?

A. No.

Q. What was your understanding—strike that. You understood the October 1999 LeftBid and [568] MercExchange agreement to require LeftBid to confer with

MercExchange to ensure—to assure a tight nexus between the commercial embodiments of the Internet markets and auctions with the claims of the pending and issued subject patents, correct?

A. Was that a clause in the agreement? Is that what you're asking?

Q. Yes.

A. Yes, but—

Q. Okay.

A. —it couldn't force LeftBid to do it.

Q. I'm not asking you about force. I'm asking you about whether the agreement you signed between MercExchange and LeftBid required LeftBid to assure that there was a tight nexus between the claims of your inventions and what LeftBid, the system LeftBid was trying to build?

A. The contract between LeftBid and MercExchange did have that requirement. It didn't require LeftBid to do it.

Q. Well, if they were going to build any system, they had to build it pursuant to your inventions, right?

A. No.

Q. Well, at least a tight nexus, right?

A. No.

Q. The clause that I'm referring to is requiring LeftBid—and I'm just going to ask you if this was the[569] agreement and we'll move on—was the agreement that LeftBid was required to assure a tight nexus between the commercial embodiments of the Internet markets and auctions with the claims of your pending and issued subject patents.

A. The patent license agreement between MercExchange and LeftBid did have that clause, but it couldn't force or require LeftBid to do that. LeftBid was its own company.

Q. But they had an agreement with MercExchange, right?

A. Yes. And they breached it.

Q. Okay. But the agreement required this tight nexus, right?

A. Yes.

Q. All right. That's what I'm talking about.

The agreement required LeftBid, if they were going to build a system, to build that around your inventions, right?

A. No.

Q. You sued—strike that.

When you were working as chief technology offices of LeftBid, you tried to make your '265 invention, correct?

A. No.

MR. RANDALL: Can you pull up Exhibit 51?

BY MR. RANDALL:

Q. Sir, I'm just going to ask you to look at the [570] front page of the license agreement between LeftBid and MercExchange. It's dated October of '99. I'm going to scroll down to try to find a signature page.

Is that your signature, sir?

A. Yes.

Q. Do you recognize that Exhibit 51 as the license agreement entered into between LeftBid and MercExchange?

A. Yes.

MR. RANDALL; Your Honor, I move Exhibit 51 into evidence.

THE COURT: Admitted.

(Defendant's Exhibit No. 51 received.)

BY MR. RANDALL:

Q. Exhibit 388 is a series of what appears to be your --

MR. RANDALL: Blow that up, please.

BY MR. RANDALL:

Q. A series of what appear to be your business cards, Mr. Woolston. One for LeftBid.com as the chief technology officer, one as Navlet for the chief executive officer and

president, one for MercExchange as the managing director, and one for Aden Enterprises as chief technology officer. Those are all your business cards, correct?

A. Yes.

MR. RANDALL: Your Honor, I move those into [571] evidence.

THE COURT: All right.

MR. RANDALL: Defense Exhibit 388.

(Defendant's Exhibit No. 388 received.)

BY MR. RANDALL:

Q. Mr. Woolston, between October '99 and April of 2000, you supervised the development of auction software for LeftBid, correct?

A. Yes. We developed software for LeftBid at Navlet.

Q. And you supervised dozens of engineers, including a team of engineers in Moscow, in their attempt to write software code for this auction system, correct?

A. For the LeftBid system, yes.

Q. And you managed that process, correct?

A. As well as I could, yes.

Q. You were the chief technology officer of LeftBid, right?

A. I thought I was, yes.

Q. How many engineers, software engineers did you have working for you, including these Russian engineers that were working?

A. None at, none at LeftBid.

Well, I take that back. There was a contractor up in New York that Mark Borghi was using. There was a contractor in Omaha, and there was, there were the four [572] Russians I believe that eventually got put in the LeftBid project, and I had at least three or four engineers in Alexandria working on it.

Q. Okay. And they were trying to develop this auction system for Leftbid that would have a tight nexus or tight relationship to your inventions, correct?

A. No.

Q. Did you make any attempt whatsoever as the chief technology officer of Leftbid to comply with this nexus requirement in the agreement between LeftBid and Merc-Exchange?

A. No. LeftBid had its own business driver. It wasn't the '265 system.

Q. That wasn't my question. My question was did you, as chief technology officer at LeftBid, make any attempts whatsoever to comply with this requirement that LeftBid was under, to develop a system that had a tight nexus or relationship with your inventions?

A. No.

Q. You made no effort?

A. Well, I think I tried to steer it in that direction, but I, there were other people running LeftBid and they didn't want to do it. That way.

Q. And when did you first understand that that wasn't happening?

[573] A. Probably soon after LeftBid got going. Mark Borghi and Mike Luther struck upon this idea that the system was going to broadcast like on television but on the Internet, a video picture—

Q. I'm just asking when—

A. —of the person.

Q. Just, when did you come to that conclusion?

A. Probably within—well, probably within, probably within 10, 8 weeks of its formulation. Mr. Borghi went out and we were going to this live bidding system. LeftBid was going to be this live bidding system.

Q. And what time frame is that?

A. I think about eight weeks after its formation.

Q. When I put up your business cards, one of the businesses was Navlet. Do you recall that?

A. Yes.

Q. And your title at Navlet was what?

A. I think I was president and CEO.

Q. President and CEO of Navlet. And that was also a company that was formed as a subsidiary of Aden; is that right?

A. Yes.

Q. And when it was formed you were also a co-owner of Aden and an officer of Aden, and a co-owner of the other subsidiary, LeftBid, and an officer of LeftBid, correct?

[574] A. I—it was a related party transaction. I don't know if your timing's exactly right. But I was an officer of both companies, MercExchange and Aden, when it was formed.

Q. And an officer and owner in both companies, right?

A. Yeah. The MercExchange—I owned stock in Aden through MercExchange.

Q. And in LeftBid and in Navlet, right?

A. Yes.

Q. So you were an officer and owner of all these companies, right?

A. Yes.

Q. Okay. And Navlet pitched in this effort to develop this on-line auction system as well, correct?

A. Yes.

You're talking about the LeftBid system?

Q. Yes.

A. Yes.

Q. Whatever system it was. You were all working together on this, weren't you?

A. We had three projects going on at Navlet. Three.

Q. Did you spend any time or any effort whatsoever at Aden or at LeftBid or at Navlet trying to build your inventions?

A. Navlet had, Navlet's away to navigate the [575] Internet, it's not in this lawsuit, it's the subject of four other patent applications.

Q. That's not—

A. The Navlet system has aspects of the '176 patent at its base. So yes, we, the Navlet system had aspects of the '176.

Q. At the time—you entered, on behalf of MercExchange, a license agreement with Navlet, right?

A. Yes. It was an agreement between Navlet and MercExchange.

Q. And at the time you entered into that agreement, you were a co-owner and a co—and an officer of both MercExchange and Navlet, right?

A. I think the agreement gave MercExchange an ownership in Navlet, but it was a related party transaction, Yes.

Q. You owned part of—you owned part of Navlet as soon as it was formed because you owned part of its parent company, Aden, right?

A. Yes.

Q. All right. These engineers that worked for you in Russia, they worked long hours, didn't they, on this project?

A. They said they did.

Q. They told you that they worked 14 hours a day, [576] seven days a week under your supervision, correct?

A. That's what they said, I believe.

Q. In fact, that's what they wrote you in an email on that subject, correct?

A. Quite possibly.

MR. RANDALL: Can we bring up Exhibit No. 156?

BY MR. RANDALL:

Q. Do you recognize Exhibit 156 as an email sent by Alexander Chernienko on or about January 18, 2000 to you?

A. Yes.

Q. About work that he was performing as a software engineer for LeftBid?

A. I think this is LeftBid, but they might have been working on the Navlet system too.

Q. All right.

MR. RANDALL: Your Honor, I'd move—

Q. And do you recognize this as an email that was sent from Alexander Chernienko to you on or about the 18th of January 2000, correct?

A. I believe so.

MR. RANDALL: Your Honor, I'd move 156 into evidence.

THE COURT: Admitted.

(Defendant's Exhibit No. 156 marked.)

BY MR. RANDALL:

[577] Q. Mr. Woolston, when LeftBid failed to implement your patented system, you—even with at least whatever assistance you provided—you sued them, correct?

MR. STILLMAN: Object to the form of the question. He said when LeftBid failed to implement the patented—

THE COURT: Rephrase the question.

MR. RANDALL: Sure.

BY MR. RANDALL:

Q. You sued LeftBid for what you considered to be this violation of this nexus requirement, correct?

A. We sued LeftBid, Navlet and Aden, I think, at the same time to try to separate the companies. One of the grounds we used to sue LeftBid—I don't know if we sued them. We terminated the license, because they had not, they violated the nexus clause and the royalty provisions.

Q. Well, in the complaint you stated that LeftBid has breached the LeftBid license by, inter alia, which means among other things, failing to pay royalties, failing to maintain reports of gross transactions and failing to comply with the nexus requirement of the LeftBid license, right?

A. Is that the letter I wrote to them terminating the license?

Q. I'm talking about the complaint, Paragraph 25.

A. I would need to see it.

MR. RANDALL: I'll accept a stipulation if—I [578] mean . . .

MR. STILLMAN: Sure. Anything.

THE COURT: Okay.

MR. RANDALL: Well, Your Honor—

BY MR. RANDALL:

Q. Your counsel has just stipulated that one of the reasons why you sued LeftBid, as stated in your complaint, was that they failed to satisfy this nexus requirement of the LeftBid license.

A. Right. They were not building the '265 or the '176 patented system, they were building their own, they were building a live bidding system that had nothing to do with the patent.

Q. And you believe they were required to build the '176 or the '265 system under that license agreement, right?

A. The license required them to do it, but you couldn't, you, I couldn't make LeftBid do it. LeftBid had its own business. It was doing its own niche. It was pursuing—

Q. In January of 2000 you entered into an agreement between MercExchange and Aden to jointly fund and share the proceeds of a lawsuit against eBay, correct?

A. What's the date?

Q. January 7, 2000.

A. That sounds about like the time we were going [579] through to enforce the patents, yes.

Q. Well, you actually formed an agreement. You entered into an agreement with—

A. Aden. Yes, I agree.

Q. Right?

A. Yes.

Q. In January of 2000, MescExchange and Aden entered into an agreement to share the costs and share the proceeds—

MR. STILLMAN: That's the third time he's asked that question.

THE COURT: It is. Just go on, Mr. Randall, please.

BY MR. RANDALL:

Q. Okay. Do you believe that eBay infringed at that time, in January of 2000?

A. The patent we were going to enforce against eBay in January 2000 had not yet issued. We had received an indication from the Patent Office it was going to issue. That was the '051 patent, that eventually issued as the '051 patent. Yes, that they infringed that patent that subsequently issued, and we believed eBay infringed it.

THE COURT: Next question?

MR. RANDALL: Okay.

BY MR. RANDALL:

[580] Q. That patent's not in this lawsuit, is it, sir?

A. No.

Q. After you left the Aden family of companies you tried to sell your patents, correct?

A. Yes.

Q. You tried to sell them to AuctionWatch, correct?

A. No.

Q. Did you ever send a letter to AuctionWatch asking them to negotiate some sort of an arrangement with you?

A. Yes, I think we did.

Q. And nothing happened to that, right? No agreement was reached?

A. No.

Q. Okay. And you also sent your patents to MySimon, correct?

A. No.

Q. AuctionWatch didn't buy your patent, did they?

A. No.

Q. They didn't license them?

A. No.

Q. You never sent a notice letter of any sort to MySimon?

A. No.

Q. How about DealTime, did you ever send any of your patent to DealTime?

[581] A. No.

Q. How about Bidder's Edge, did you ever send your patents to Bidder's Edge?

A. I called the principal of Bidder's Edge.

Q. And they didn't buy or license your patents either, correct?

A. They'd been put out of business by eBay.

Q. They didn't buy your license your patents, did they?

A. No.

Q. In the spring of 2000 when you were working at Navlet, you were working on a system that would crawl other web sites, correct?

A. It was a lot more complicated than that.

Q. Well, when I say—do you understand what I mean when I say "crawl a website"?

A. No.

Q. Okay. You were working on a system at Navlet that would allow it to enter another company's website and retrieve information, correct?

A. Among other things, yes.

Q. And you wanted at that time, in the spring of 2000, the Navlet system to be able to enter eBay's website and extract information, right?

A. Yes.

[582] Q. And you knew that eBay and Bidder's Edge were involved in a lawsuit, right?

A. Yes.

Q. You knew that eBay was trying to keep Bidder's Edge from entering eBay's website and extracting information, right?

A. Yes.

Q. And you thought what Bidder's Edge was doing was covered by your patent, your '176 patent, right?

A. Yes.

Q. Your lawyer, John Phillips, approached eBay and told eBay that perhaps it could use your patent against Bidder's Edge in the lawsuit, right?

A. I don't know if that was the approach. What I know is that Mr. Phillips was put into contact with

Mr. Monahan and Brett Healy—I believe he's sitting over there—about potentially buying the '176 patent, yes.

Q. You were sitting—you were there while Mr. Phillips was deposed, correct?

A. Yes.

Q. In this case?

A. Yes.

Q. You sat through the deposition and watched it, right?

A. Yes.

[583] Q. Take any notes?

A. No.

Q. Okay. Do you remember Mr. Phillips testifying that he initiated contact with eBay; specifically he contacted an ex-classmate Todd Cohen. Do you recall that testimony?

A. Yes. Todd Cohen and John Phillips went to law school together.

Q. All right. And do you recall Mr. Phillips testifying

that, in fact, he contacted Mr. Cohen and talked to him about the Bidder's Edge case?

A. No, but that makes sense.

Q. You don't recall that testimony?

A. No.

Q. Do you recall the testimony from Mr. Phillips that, that he contacted Mr. Cohen at eBay before there was any contact between eBay's lawyers and MercExchange?

A. Yes. That makes perfect sense, because the '176 patent had not issued at the time, so Mr. Monahan and Mr. Handler would have no reason to contact us unless they knew about it. So they knew about it from somewhere, and it hadn't issued yet. So they must have known about it from—

Q. All right. So the first contact between MercExchange and eBay relating in any way to your patents was Mr. Phillips contacting eBay and talking to Mr. Cohen, [584] his former classmate, about this Bidder's Edge case, right?

A. Yes. And then—

Q. But—

A. —the way I understood at the time, then we got contacted by eBay that said they were interested in buying the patents.

Q. I wasn't asking you about that, I was just asking about the initial contact.

But at the time Mr. Phillips contacted eBay, he didn't mention anything about any alleged infringement by eBay, right?

A. I don't know what he said.

Q. Well, you were sitting in there in his deposition?

A. I don't think he said he recalled what he said. I don't recall what he said in his deposition.

MR. RANDALL: Your Honor, may I refresh his recollection with respect to that issue? It's an important issue in this case, and I've just got a couple clips to play.

THE COURT: No, I don't think that's appropriate to show another person's deposition to refresh his deposition about what he said in the deposition.

MR. RANDALL: But he was there.

THE COURT: I know he was there, but . . .

MR. RANDALL: Okay.

[585] BY MR. RANDALL:

Q. Do you recall that yesterday you testified that, because eBay knew what your patent application numbers were, that somehow they must have done their homework?

A. Yes.

Q. Do you recall that?

A. Yes.

Q. And you suggested that perhaps they had found this foreign patent application of yours; is that right?

A. They must have found the license agreement we had with Aden off of EDGAR, because they had our serial numbers. Our foreign application wouldn't have our patent application serial numbers.

Q. Well, you're a patent lawyer. You understand that you can get related patent application numbers from the Patent and Trademark Office, right?

A. No. I'm not an expert on Patent Office procedures, and I don't believe that's true.

Q. You don't, you don't know that you can contact the Patent and Trademark Office and go on their web site and find out what the related patent application numbers are? Nothing else, just the numbers?

A. No.

Q. And you didn't know that yesterday when you suggested that maybe we, that eBay found out about these [586] numbers through some other means, right?

A. Maybe they did.

THE COURT: Good time to take a break?

MR. RANDALL: Sure.

(Jury left the courtroom.)

THE COURT: How you doing, Mr. Randall? Are we going to finish?

MR. RANDALL: Probably not. But certainly the . majority of what I've got by today, and maybe just a short, short examination on Monday morning. But I'm . . .

THE COURT: Okay. It's your case.

MR. STILLMAN: I know this is a waste of time, but I've got a big problem. Mr. Randall called me, left a voice mail last night, and I'm not criticizing, because I understand these things are difficult to plan, but said that he thought he'd be finished by lunch or shortly after lunch, and we brought our expert witness in this afternoon who cannot be here on Monday. Is there any chance that we could put him on—he's a short witness—out of order?

MR. RANDALL: Your Honor, what I said—

Mr. Stillman asked me yesterday --

THE COURT: I can't hear you.

MR. RANDALL: I'm sorry.

Mr. Stillman asked me yesterday if I was going to take the full day today. And originally I said yes, I think

* * * *

[589] jurors about the Friday traffic. And Mr. Stillman lives in this area, as some of the other lawyers do, but Mr. Randall, you don't, and this is an extremely unusual situation today. So I told Mr. Johnson to tell them that—and I'll tell them when they come out here—we're going to break at 10 minutes to 5:00, because once five o'clock starts, especially

with this extra traffic they have today, it's going to be a real problem with them. So we're just going to have to break at 10 minutes to 5:00 today.

(Jury returned to the court room.)

THE COURT: Ladies, I'm aware of the traffic today, and we're going to break at 10 minutes to 5:00 today so hopefully you'll be able to miss some of the traffic anyway, because I'm afraid there are going to be some road blocks. At least that's what the paper seems to indicate.

So let's go ahead, Mr. Randall, and see if we can get finished this afternoon.

MR. RANDALL: Thank Your Honor.

BY MR. RANDALL:

Q. Mr. Woolston, you realized in May of 2000 that eBay obtained an injunction preventing this Bidder's Edge company from trespassing on its website, right?

A. I became aware of the injunction. I'm not sure if I was aware of it in May.

Q. And you read that case, the Bidder's Edge/eBay [590] case about preventing trespassing--an eBay's website, right?

A. Not that I recall, no:.

Q. Do you recall, in the Spring of 2000, that you wanted to do a deal with eBay where you would swap some patent rights for permission to enter eBay's site—

A. Yes.

Q. I'm sorry. Enter eBay's site—

A. Yes.

Q. —and extract information?

You wanted to make an offer—strike that. :. You wanted eBay to make an offer to you, though, before reviewing your patent files; is that right?

A. No. What we said was we would give you a presentation of the patents and then—actually I think that was

early in the, very early in the discussions. I said we wanted to take a look at the issue of patents and give us a range, like a real estate transaction, of what you guys are talking about, and then you can do your diligence, and if it doesn't pass your muster, then you have no. obligation to buy.

Q. You were aware, were you not, in May of 2000, that Mr. Kumamoto, on behalf of eBay, wrote to MercExchange asking for the power to inspect the MercExchange file histories and pending patent application, right?

A. Yes. EBay wanted to have access to our patent [591] files at the Patent Office.

Q. And the power to inspect, that would allow eBay to get these applications directly from the Patent Office, right?

A. Yes. We also offered to make them available to you.

Q. Well, I'm just talking about the power to inspect.

A. Yes. Power to inspect is power to get the patent files from the Patent Office, yes.

Q. You never agreed to allow eBay to have this power to inspect your application files at the Patent Office, correct?

A. That's correct.

Q. Instead, in May you responded to eBay suggesting that we should hurry up this process of looking at your—

A. Do you have the email? Maybe we can speed it up. I mean, I just don't remember the exact give-and-take of conversations.

Q. Let me see if this refreshes your recollection. MercExchange told eBay on May 24 of 2000, .In the interest of full disclosure and candor, we are talking with third parties about the patent portfolio and also contemplating relationships that capitalize the MercExchange into an operating company."

Do you recall making that communication to eBay?

[592] A. Yes, that sounds like an email I sent. I don't know the date, exactly.

MR. RANDALL: Can you-just pull up—turn that screen off, but just pull up the email. That's DX19.

BY MR. RANDALL:

Q. You can see from this-email, Mr. Woolston, from you to the representative of eBay, that it's dated May 24, 2000, correct?

A. Yes, that's the date.

Q. Okay. So you made that statement to eBay on May 24, 2000, correct?

A. I made to Andrew Kumamoto. Yes. EBay.

Q. There weren't any third parties that you were contemplating relationships with in talking to at that time, were there, sir?

A. Yes, there were. And talking.

Q. Which ones?

A. I-Fly, Christie's and Tiger Direct.

Q. Do you recall that, in August of 2000, Mr. Kumamoto wrote to Mr. Robertson explaining that "eBay hired Cooley Godward to assess the scope and value of these rights. We believe that the next step in consideration of this potential transaction should bb our firm's review of the prosecution histories of the application."

Do you recall that?

[593] A. If you want to show me the letter I can speed this up. I don't know if I recall it or not.

MR. RANDALL: Okay. Let's pull up DX20.

MR. STILLMAN: I'm sorry, I'm confused. Mr. Randall said this was DX20, and it doesn't comport with our DX20.

MR. RANDALL: It's not an exhibit. It's—this is not an exhibit.

THE COURT: Okay.

MR. STILLMAN: It says it's an exhibit.

THE COURT: Well, that's not the only time it's said that.

MR. STILLMAN: Okay. I'm sorry.

THE COURT: Maybe they have that label.

MR. RANDALL: Our exhibits are labeled D, then a number. The "X" means cross. But it's not an exhibit. THE COURT: That's their way of --

MR. STILLMAN: Okay. I'm sorry.

BY MR. RANDALL:

Q. Does this refresh your recollection, Mr. Woolston that, in fact, on the 24th of August 2000, an eBay representative, informed Mr. Robertson, your lawyer, that we believe the next step in consideration of this potential transaction should be our firm's review of the prosecution histories of the application.

[594] A. Where are you reading from?

Q. It is the second, second paragraph, last sentence.

A. This is after our meeting. This is, I think this is the last letter we ever received from eBay. But I could be mistaken.

Q. Does that refresh your recollection that that statement was made by an eBay representative to your lawyer, Mr. Robertson?

A. Yeah, there's a letter here. I think we received it. I don't have a specific recollection that's refreshed.

Q. On August 29, 2000, eBay's representative requested that your prosecution files be sent to Cooley, Godward's offices in Palo Alto, correct?

A. I believe so. And I believe we had a counter-proposal that said we'll make them all available to you in the D.C. office of Hunton 4 Williams and you can send your attorneys down from Reston to take a look.

Q. There were—under that proposal, sir, there would be no way for eBay to check to make sure that they actually had all of the information in your prosecution file histories, correct?

A. No, that's not true. We could have made the files available to you.

Q. But there was no way for us to check whether or not we had a complete set of the files, correct?

[595] A. Well, you could have come and looked at the files, and then if you weren't satisfied, we maybe could have given you power to inspect if you didn't believe us that it was all the files.

Q. On September 26, eBay's representative—and this is in 2000, September 262000—eBay's representative wrote to you stating "If you wish to have us evaluate your patent applications, you must send copies of the entire family of patent applications to us." Right?

A. Yes, I believe that was your proposal. You wanted copies of all of our patents, all the file histories sent to San Jose, and we wanted to make them available in Washington.

Q. Why didn't you just pack up all these file histories and send them—if you wanted eBay to review these file histories, why wouldn't you just pack them all up and send them to eBay and let eBay look at them?

A. Maybe we should have. But I had the distinct impression that, impression that eBay was trying to get a jump on this lawsuit, because you weren't dealing in good faith.

You asked me.

THE COURT: You asked him. You got an answer. Go on.

BY MR. RANDALL:

[596] Q. EBay had no idea at that time—

THE COURT: Well, not—don't testify. So let's go-ahead and—

MR. RANDALL: Yeah, I'm—

THE COURT: Ask him a question.

MR. RANDALL: I am.

BY MR. RANDALL:

Q. There was no way, at least as you understood it, for eBay to have known at that time that you had planned to sue eBay in January of 2000, correct?

A. January of 2000. Was there any way for me to have known that eBay knew that we planned to sue eBay in January 2000? Is that the question?

Q. Right.

A. No. That was public record. EBay may very well have known that.

Q. Your agreement with Aden Enterprises in January of 2000 that you had an, agreement to sue eBay, that was public knowledge?

A. Yes. It was laid open in the suit between Aden and MercExchange. It was made public. Part of the public record.

Q. When eaay and MercExchange were having these various exchanges, MercExchange never said in any one of those communications that we've gone through that eBay [597] infringes any of these patents, right?

A. You didn't infringe—eBay did not infringe the '265 patent and the '176 patent at our meeting. They did infringe the patent that subsequently became the '051 at that meeting, but we never made the charge of infringement because eBay wasn't infringing the issued patents at that, time.

Q. MercExchange never communicated to eBay in any way that eBay infringed any of its patents until you filed suit in this case, correct?

A. I don't know if that was the inference you would have taken from our meeting or not. That was the communication I had with eBay.

Q. When did you authorize suit in this case, sir?

A. Probably a couple months before we filed suit.

Q. And when was that?

A. Probably—well, I think we, this lawsuit got started in September.

Q. 2001.

A. Okay. So probably a few months before that.

Q. Okay. Prior to filing suit against eBay in September of 2001, you never communicated to eBay that it infringed any one of your patents, correct?

A. That's, yeah, that's probably correct.

Q. And you never Communicated to eBay that you had [598] this agreement with Aden Enterprises in January of 2000 to sue eBay, correct?

A. You might have had—you've got other documents out of that record, so I think you have it.

Q. No. We got those in discovery in this case, sir.

I'm asking you a question. Did you ever, before filing this lawsuit, did you ever inform eBay or have anyone on your behalf inform eBay that you and Aden had reached this agreement, this contract to sue eBay in January of 2000?

A. Probably not.

Q. Without full access to your patent file histories, no one would know about the rejections that the Patent Office had issued to your claims in the pending applications, correct?

A. I'm not sure if that's true or not.

Q. Well, the Patent Office application process is private; right? The public doesn't have access to what's specifically going on in the Patent Office, right?

A. You seem to have a way of figuring out what's going on at—

THE COURT: Just answer—no, no, no. He asked you a question. Don't ask him a question—

THE WITNESS: All right.

THE COURT:—or make a comment, just answer the [599] question. And then if you want to—

THE WITNESS: Yes, sir.

THE COURT:—elaborate on your answer, certainly you may do that.

THE WITNESS: I apologize.

BY MR. RANDALL:

Q. The Patent Office procedures are private, right? Between the Patent Office and the applicant and its attorney, right?

A. Yes.

Q. And again, I'm not talking about just finding out the application numbers, I'm talking about the office actions where the officials, the Patent Office will reject claims and then the applicant responds to those rejections. That activity is not public activity before the patent issues, correct?

A. I'm not sure if that's true under the new rules or not. It was under the old rules.

Q. All right. With respect to—strike that.

With respect to all of your activity before the Patent Office before you filed this lawsuit, all of the communications between MercExchange and the Patent Office regarding your pending applications were private, right?

A. No. We shared some of them with eBay at the meeting.

[600] Q. Before this meeting?

A. At the meeting.

Q. Let me ask you about the...

Without full access to all of your pending patent applications before the Patent Office, there would be no way for eBay or some other company to understand the Patent Office's rejections that you had received in your pending applications, correct?

A. No. They could have asked us and we could have provided them.

Q. And eBay did ask you to provide—

A. We made

Q. —the power to inspect your applications before the Patent Office and you said no, correct?

A. That's correct.

Q. I'd like to talk to you about the MercExchange settlement with GoTo.

A. Yes, sir.

Q. The agreement was both a settlement and a license, correct?

A. And a covenant not to sue.

Q. And the settlement ended the litigation between MercExchange and GoTo.com, correct?

A. Yes, it did.

Q. And the, settlement also granted a license to GoTo [601] and its parent company, or new parent company, Overture, through the life of your patents, correct?

A. I believe so. I don't want to misspeak, but I believe that's the case. There was a document that has exactly what's in it.

Q. And so the money that you received included a payment for the license grant going forward through the life of these patents, correct?

A. Yes. In effect.

Q. How much of the four million dollars that was paid by GoTo to settle this case was for a paid-up license through the life of the patent of the '265 patent?

A. I don't know. There's experts that are going to testify on this issue. I don't know how to break it up. i I'm not a licensing expert. If they broke it out, they broke it out; if they didn't, they didn't. I don't know how to break it out.

Q. You're the managing director of MercExchange and you had the ultimate decision about whether to settle that lawsuit or not, correct?

A. Well, I—yes.

Q. And you had the ultimate decision with respect to MercExchange in deciding whether or not the amount that you received was sufficient, correct?

A. Yes.

[602] Q. And you granted, in this settlement agreement,

among other things, a fully paid-up license to your issued patents and all the pending applications, correct?

A. If you—we can maybe just speed this up if we put the document in front of me.

I think the '265 was actually licensed to SpinOff. They were having Channel Advisor.

GoTo had the license. I just don't have the terms memorized.

Q. All right. GoTo had a full patent paid-up license agreements to all of your issued patents and all of your pending applications, correct? Through that settlement agreement?

A. I think so. I don't have it memorized.

Q. All right. And what was your understanding, if any, as to how much of that four million dollars was attributable to the fully paid up license to all of your patents and applications?

A. My understanding was that even though the license says they are licenses forever, we talked to the people that run the business.

Q. That's not my question.

A. You're asking me the amount attributable and I'm telling you why —

THE COURT: Why don't you say it first, and

* * * *

[605] Q. You had no idea?

A. No.

Q. Do you have any idea how much GoTo.com attributed of this four million dollars to saving their employees and management from the distraction of litigation?

A. I don't know.

Q. You have no idea?

THE COURT: He said he didn't know. Let's go on.

BY MR. RANDALL:

Q. Were you aware that GoTo.com had set aside in escrow an amount of money for contingencies because it was in the process of getting acquired by a company called Overture?

A. No.

Q. Let me ask you a few questions about the AutoTrader license.

A. Yes, sir.

Q. There was a mention about damages to Merc-Exchange because AutoTrader would not pay this royalty unless eBay were enjoined. Did you hear that?

A. Yes.

Q. And you know that AutoTrader has started a on-line auction that competes with eBay's on-line auction?

A. Yes.

Q. For cars, correct?

[606] A. Yes.

Q. And AutoTrader paid you $450,000, and you in turn promised to try to enjoin eBay; is that right?

A. No. There's a provision in there that eBay's enjoined that they would pay royalties going forward.

There's also some other provisions in there such as AutoTrader has rights to enforce the patents now in some circumstances. I don't have it memorized.

Q. The AutoTrader license addresses royalties only for AutoTrader's auction format, right?

A. I believe that's correct.

Q. Does the AutoTrader license have anything to do with fixed price sales?

A. It could. I'd need to see the agreement.

Q. You told the jury yesterday that this case covers only fixed price sales; is that right?

A. That's right. That's correct.

Q. Did you tell AutoTrader at the time that he entered

into this agreement that this case only involves fixed price sales?

A. No.

Q. Did you tell AutoTrader at the time they gave you the $450,000 that you would not be able to enjoin eBay's auction format in this case?

A. No.

[607] Q. Do you understand that AutoTrader only operates an auction format for automobiles as opposed to a fixed price format?

A. No. They have a fixed price format.

Q. Yesterday your attorney moved into evidence, I believe, Plaintiffs Exhibit 6, which was a certified copy of the '779 patent application. Do you recall that?

A. Yes.

Q. That application is on appeal, correct?

A. I believe so. Yes.

Q. And what that means is that the Patent Office has rejected—the Patent Office has issued a final rejection on all of those claims and you appealed from that, correct?

A. Yes. You can appeal from that, or continue to prosecute another way.

Q. And that's what you or your attorneys did in the '779 application, right, that's in evidence?

A. I believe it was a, there was an appeal filed, yeah.

Q. And when you file an appeal, you file an appeal brief, correct?

A. Yes. Yes.

Q. The appeal brief is not in this certified copy, and we don't have a copy of it. Do you know whether, in fact, you have filed an appeal brief in the '779

* * * *

[639] THE COURT: That's correct.

THE DEPUTY CLERK: Judge, for- clarification, on the list it's D168 and you said 68. Is the list correct? Is it supposed to be 168?

THE COURT: 168 according to what I have.

THE DEPUTY CLERK: I just wanted to make sure.

MR. RANDALL: Yes, it's 168.

(Defendants Exhibits as recited were received.)

THE COURT: And we didn't call the roll, but everyone agrees that everyone is here?

MR. STILLMAN: Yes.

MR. RANDALL: Yes.

THE COURT: Thank you. Go ahead.

CROSS-EXAMINATION

BY MR. RANDALL: (Cont'd)

Q Mr. Woolston, we talked about last Friday your various business plans for your company Fleanet, correct?

A We talked about the-business plans, yes.

Q I would like you to look at Defense Exhibit 381. I'm sorry. This is a—381 is the patent enforcement agreement that we talked about between Aden and MercExchange in which Aden and MercExchange agreed, I believe, on January 7, 2000 to sue eBay, and this is the agreement; is that right?

A Can I take a look at it?

Q Yes. Absolutely.

[640] A Go down to the bottom. All the way. Yes, this is my signature. It looks like the enforcement agreement.

MR. RANDALL: I'll move Exhibit 381 into evidence, Your Honor.

MR. STILLMAN: Could you look at your pretrial order? My page has bled off with respect to the court's rulings on that.

THE COURT: 381?

MR. STILLMAN: Yeah. I can't tell.

THE COURT: I'll be able to tell very quickly.

MR. RANDALL: Should be 00.

THE COURT: It's 00. It's admitted.

MR. RANDALL: Thank you.

(Defendants' Exhibit 381 was received.)

BY MR. RANDALL:

Q We also discussed your business plans, correct, Mr. Woolston?

A Fleanet business plans.

Q If you can pull up Defense Exhibit 53, please. MercExchange LLC, that's your company, correct?

A Yes

Q And that's the address of your company listed on this cover page of Defense Exhibit 53, correct?

A No.

Q It was at one time, correct?

[641] A Yes.

Q. Move to the next page. Is this a business plan or draft of a business plan produced by MercExchange? When I say that, I'll direct your attention to the bottom right-hand corner where it says ME, indicating a MercExchange production document.

A Yes. This is either a draft or a final that was produced, yes.

MR. RANDALL: Your Honor, I move Defense Exhibit 53 into evidence.

MR. STILLMAN: I'm sorry. Does that document have a date on it?

THE WITNESS: No.

MR. RANDALL: Your Honor, it's 00.

THE COURT: You want to know if it has a date. He asked if it had a date on it.

MR. RANDALL: He has it. They produced it. I would like to just move it into evidence.

THE COURT: It's admitted.

MR. STILLMAN: I'm just trying to figure out if the document has a date on it to reflect when the business plan was prepared.

THE COURT: I can't tell you. I don't know. Maybe you know, Mr. Randall.

MR. RANDALL: Well, I would just like to—it's in

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[644] back to me?

THE COURT: All right.

MR. RANDALL: Can you pass—could you look at the transcript?

THE COURT: I want to look at it. I will look at it. I want to know what the question was first.

(Whereupon, the question was read back.)

THE COURT: And his answer was no, but then he said no—

THE WITNESS: We didn't need to. It's the same.

MR. RANDALL: Can you pass—can you look at the transcript?

THE COURT: Let me see it. I'll just read his answer.

MR. RANDALL: Your Honor, we have a video clip of this section.

THE COURT: I know you do. I know you do, but I'm not going to let you show it until I see whether it's incorrect with what he testified to today.

MR. RANDALL: Sure.

THE COURT: "To my knowledge, we didn't do any clearance search prior to any of our commercialization efforts.

"Any of what?

"Any commercialization effort that MercExchange has [645] been involved with, that would include the Aden companies or MercExchange's own efforts, we never did a patent"—that's an answer—"clearance search.

"Why not?

"Didn't need to.

"Why not?

"Why not? Because we didn't have anybody asserting the patents against us."

BY MR. RANDALL:

Q Was that your testimony, sir?

A Yes.

Q I asked you on Friday a couple of times about the first time you had heard eBay. Did you understand my questions to include eBay and Auction Web, the name that was used previously when you responded?

A You are talking about the '95, '96, '97 time frame? I never knew about Auction Web or eBay, to my knowledge.

Q. When was the first time you ever did hear of eBay?

A EBay kind of snuck up on us and burst on the scene. I believe it was '98, sometime in '98 I became aware of it.

Q Mr. Woolston, how long would it take one of ordinary skill in the art to build and implement the inventions claimed in your '176 patent at the time you filed your application?

A I believe I said you needed to build a '265 or '265-related system first before you had something to search.

[646] I testified that I thought it would take about six man-months. Man-months, that's a project management term of one person working one month. And I believe I testified that I thought the '176 system would take a couple of months on top of that. I wasn't completely sure because it has project management issues involved. You can't put the deck on the boat before you build the hull. So some things could be done out of order and some things couldn't.

Do you recall your deposition testimony in which—strike that. Do you recall—you just answered about both, the '265 and the '176, correct?

A Yes.

Q Do you recall your deposition testimony where you stated that it would take approximately eight man-months to—for one of ordinary skill in -the art at the time you filed your application to build and implement the inventions claimed in the '265 patent?

A Jeff—Mr. Randall, I was deposed for four days and it was six months ago. If I said eight months, eight man-months, that's probably what I felt at the time.

Q Do you feel that now?

A Yes. It's six to eight man-months. You can compress the schedule.

Q Do you recall your testimony—strike that. Do you recall at your deposition testifying that it would take [647] approximately seven months for one of ordinary skill in the art, in your opinion, to build and implement the inventions claimed in your '176 patent at the time you filed your application?

A Yes. But I think I answered that in the context of you needed something to search first. You needed a deck—you need the hull before you put the deck on the boat. I might have been inconsistent in the deposition of how many man

months. I thought it was a fairly complex line of questioning with project management thrown in there.

Q Well, is that correct, that it would take approximately seven—

A It could be.

Let me finish my question. It would take approximately seven months for one of ordinary skill in the art to build and implement the inventions claimed in your '176 patent at the time you filed the application?

A Yes, I think that's right. It would take six to eight to build the '265, and then maybe another month or two on top of that for the '176. But things—schedules could be compressed with project management and resources.

Q You testified in your deposition that it would take seven months for the '176. Do you recall that?

A I think I'm testifying consistently with what I said before.

[648] MR. RANDALL: One minute, Your Honor. Your Honor, could I hand the witness his deposition testimony and ask him if it refreshes his recollection?

THE COURT: All right.

MR. RANDALL: Thank you.

THE COURT: Have you had a chance to read it?

THE WITNESS: Yes, sir.

BY MR. RANDALL:

Mr. Woolston, does that refresh your recollection, that it would take, I think you stated, six plus an additional four weeks?

A No, that's not exactly what I said. It's entirely consistent with what I'm saying here today.

Q That it would take eight man-months to build the '265, is that right?

A I said, I qualified the answer. "There'd be logistical lag in getting all the parts in front of you, but once you had the parts in front of you, I'd say about—this is my opinion. I don't really feel qualified to answer it—eight man-months." That was for the '265. And then you asked about the '176, and I said -I believe about another month.

Q It says, does it not, six plus an additional four weeks? Is that what it says, sir?

A Yes. It says—well, it says more than that.

Q One last thing, Mr. Woolston. Why did you tell [649] Mr. Sherman that you had the idea of the consignment node invention about December 1994?

A I don't know. Maybe because it took me that, long to - reduce it to practice from the August date. It took six, seven months to actually reduce it to practice as is sufficiently described to file a patent-application.

Q So is that—is it your recollection, in fact, you first had the idea for the consignment invention about December 1994?

A December of '94?

Yes.

A There have been indications, as I testified in my deposition, that I had a plan out to raise money as early as' '94. It's not a date that I recall. We have never been able to find the document. It's interesting that you found that, though. It's the second document that we've seen that shows a date earlier than that August date that was a firm memory of in my mind.

Q. That wasn't my question. My question was did you. first have the idea for the consignment node invention about-—in about December of 1994 as you told Mr. Sherman in a letter? A I think I wrote the letter to Mr. Sherman in 1996. That was certainly much closer in time to the '94 date. .And as I testified at deposition, we had another indication that I may have been thinking about as early as December-of '94.

[650] Does it refresh my recollection as to a '94 conception date? Is that your question? It does, but it doesn't give me any memory. It's just so long ago. It wouldn't surprise me one way or the other.

Q If you first had the idea for the consignment node invention in December of 1994, that would surprise you?

A It seems very early. .It's possible. It's possible.

MR. RANDALL: I have no further questions of this witness at this time, Your Honor.

MR. STILLMAN: We'll be very brief.

THE COURT: That's what we call redirect. So you all know, that when a lawyer asks questions in direct examination, then the lawyer on the other side obviously has the chance to cross-examine a witness. And then the lawyer who asked the direct questions is allowed to, in most cases, ask questions what we call redirect in order to sometimes clarify some of the questions or answers that were brought out in cross-examination. And then if appropriate, then the lawyer on the other side gets to recross. So I just wanted you to understand what's happening here.

REDIRECT EXAMINATION

BY MR. STILLMAN:

Q Mr. Woolston, Mr. Randall on his cross-examination asked you a number of questions about an article that was entitled From Army Knives to Gold Coins Do you recall that question?

[651] A Yes, sir.

And I think your testimony was that you are not aware of that article during the prosecution—well, let me just ask you this. Were you aware of that article during the prosecution of the '265 and the '176 patents?

A No, sir.

How did you become aware of it, sir?

A We had another patent, an auction patent that's related to auction, not the fixed price we talked-about here today. The patent office examined the auction patent and allowed it over that reference.

Q. You say the patent office examined that article?

A. Yes, sir.

Q And allowed your patent application over that article?

A Yes, sir.

Q What do you mean when you say the patent office allowed your application over that article?

A It considered it along in combinatjon with the other inventions that were prior to us and determined that we were patentable, complied with all the laws, and that a patent should be awarded.

Q Notwithstanding the art disclosed in the article?—

A That's correct.

Q Once you became aware of it, did you disclose that article to the patent office in your other patent [652] applications?

A Yes, sir.

Q. Mr. Randall also discussed some articles about the OnSale auction system. Do you recall that?

A Yes, sir.

Q. Were you aware of the OnSale articles at the time you filed your original patent application?

A No, sir.

Q. How did you become aware of that?

A I think the office—yes. The office found that article, examined it in, the context of that auction patent we were discussing.

Q. And did the patent office allow the '176 patent over that article?

A Yes, sir.

Q. Were other patent applications allowed by the PTO over those articles?

A Yes, sir.

Q. Which ones were they?

A I believe the two-tiered patent. That's the '661 that's not in this case. That was allowed twice over that. Certainly the PriceLine matter was allowed over that, and I believe we've had another indication allowance. In this case, I don't have a specific recollection of which one, but it was allowed over that.

[653] You recall that Mr. Randall also mentioned some articles about automobile auctions. Do you recall that?

A Yes, sir.

Q. When did you first become aware of those articles?

A Those were discussed in the '265. Those were examined by the office. We discussed that with the office.

Q So the patent office was aware of those articles when they were considering your application for the '265 patent?

A Certainly.

Q And was the '265 patent granted over those articles?

A Yes, sir.

Q Do you have any idea of how many prior art references the patent office considered in connection with the examination of the '176 patent application?

A No, but it's many. It's on the cover page of the patent. It's the one that have been made an official record.

Q Would it have been as many as 50?

A Quite possibly.

Q Mr. Randall also mentioned to you a patent that was owned by Mr. Nahan. Do you recall that?

A Yes, sir.

Q Were you aware of the Nahan patent during the prosecution of the '265 or the '176 patent applications?

A I don't believe so, no.

Q How did you become aware of it, sir?

[654] A I think we became aware of it that the patent office had considered many, many references and allowed the patent that's at issue, the '176. There were some issues through

some claims that the patent office did not allow in that case that we elected to continue to prosecute with the patent office. They were allowed in the '176. And I believe the examiner discussed the Nahan reference with us in that case as well. Didn't really matter to us because those claims were never allowed in the '176 in the first place.

Q Mr. Randall mentioned to you or showed you something called your Fleanet business plan. Do you recall that?

A Yes, sir.

Q Was that business plan ever designed to be a complete commercialization of any of your inventions?

A No, of course not.

Q What is the relationship between the Fleanet business plan and your claim in the claims of your invention in this case?

A None really. EBay doesn't infringe the business plan.

Q Is there anything in your claims, in either the '265 patent Or the '165—or the '176 patent, that requires a trusted intermediary to take physical possession of the goods?

A No, sir.

Q There was some questions and answers with Mr. Randall regarding when you contend that eBay began to infringe the [255] '265 patent. At the time that you disclosed an integrated transaction processor as an element of your claims in the '265 patent, did eBay have an integrated transaction processor?

A No, sir. Not that I'm aware of.

Q Is there anything in your claims that suggest that you are claiming to invent e-commerce or selling goods through the Internet?

A No, sir, of course not.

Q Have you had an opportunity to look at any of the eBay patent applications that are exhibits in this case?

MR. RANDALL. Your Honor, that's outside the scope of cross-examination.

MR. STILLMAN: I'm going to make it relevant if I get a chance to ask the next question.

MR. RANDALL: It's outside the scope.

THE COURT: Redirect has to do with cross.

MR. STILLMAN: I agree, and it will be directly relevant because it has to do with Nahan patent reference.

THE COURT: All right. I'll let him answer the question, certainly.

MR. STILLMAN: And I don't know what his answer is going to be.

BY MR. STILLMAN:

Did you have an opportunity to look at any of the eBay patent applications?

[256] A You can see them laying open in Europe. I have taken a look at some of those.

Q Have you seen any citation to the Nahan patent in any of the eBay patent applications?

A I have not.

Q Anything in your claims with respect to the '176 or the '265, Mr. Woolston, that requires one who, as a trusted intermediary to, quote, add value to the good?

A No, of course not.

Is there anything in the claims of the '265 or the '176 that limits participants to consignment stores?

A No, of course not.

Q Is there anything in the claims of the '265 or the '176 patents which requires that the trusted intermediary physically inspect the goods?

A No.

Q You testified in response to a question from Mr. Randall that you conceived the inventions of the '176 patent on your drive to work. Do you recall that testimony?

A Yes, sir. It was a date I remember having it.

Q All right. How long did it take you to reduce that conception to practice, sir?

A It took six or seven months of diligence to reduce it to practice. Maybe even eight months.

MR. STILLMAN: I think that's all I have. Thank [657] you.

THE COURT: Mr. Randall.

RECROSS EXAMINATION

BY MR. RANDALL:

Q You talked about the Army Knives to-Gold Coins article. Do you recall that testimony just a few minutes ago?

A Yes, sir.

Q Actually, what the patent examiner did in that '051— patent application was rejected all of your claims, every single one of them, based in Part on-the ACORN Network as described in Army Knives to Gold Coins?

A Yes.

Q Is that right?

A But then she allowed them

Q Is that right?

A Well, they were eventually allowed.

Q If you just answer my question, we'll get through this fast. All of your claims during the prosecution of the '051 application were all rejected over prior art, including From Army Knives to Gold Coins, the description of the ACORN Network, correct?

A Yes. Hut it wasn't the-claims that were allowed.

Q And then in order to get over the prior art or get around the prior art, you added what is called a seller's account and debiting and crediting a seller's account, correct?

A We remitted the claims that, among other amendments, was submitted to the patent office, yes.

Q All of your claims stood rejected in light of the ACORN Network-until you changed your claims to add this seller's account and debiting and crediting a seller's account, correct?

A Just to be clear, we are talking about a patent that's not in the suit. We amended the claims to include that and other limitations, sir.

Q And those other limitations and those other elements, seller's account and debiting and crediting a seller's account, they are not at issue in this case, correct?

A That's correct.

Q. Nor is the '051 in this case, is it?

A That's correct.

MR. RANDALL: No further questions, Your Honor.

THE COURT: Is that it? Thank you, Mr. Woolston.

THE WITNESS: Thank you, sir. You may step down. (Witness excused.)

THE COURT: Next witness.

MR. ROBERTSON: Your Honor, plaintiff is going to be calling Dr. Alfred Weaver from the University of Virginia, and Mr. Randall on Friday had represented to us that he anticipated that Mr. Woolston was going to go the entire morning. I need about five minutes to—I understand how [659] these things change.

MR. RANDALL: I didn't say that.

THE COURT: No. There was some reference made that' maybe—I'm not sure the jury was here. There was some reference that it might take a little longer. I think he said-one hour.

MR. ROBERTSON: Fair enough; Your Honor. We are not suggesting—

THE COURT: You want to break to see whether your witness is here?—

MR. ROBERTSON: I think my witness is here. I just need about five minutes to set up, and I-didn't want to inconvenience the jury while we were arranging the exhibits_ and notebooks.

THE COURT: Why don't you go into the jury room and relax for a few minutes.

(Whereupon, the jury departed the courtroom.)

MR. RANDALL: Your Honor, I don't have a problem if Mr. Robertson just needs some time to set up, that's fine. But to suggest that I said I was going to take all morning, it's not right in front of the jury.

THE COURT: Let's just watch it. I remember he said he thought it would take about another hour.

MR. ROBERTSON: I apologize, Your Honor. I didn't recall that.

[660] THE COURT: The next time anything like that happens, if you need some time—I'm looking at both counsel right now—let's just don't say anything other than Your Honor, I would like five minutes or 10 minutes in order to set up without going into any reasons why. Okay.

MR. ROBERTSON: Yes, Your Honor.

THE COURT: All right.

(Court recessed at 10:20 a.m., until 10:25 a.m.) THE COURT: Are you ready?

MR. ROBERTSON: Yes, sir.

(Whereupon, the jury returned to the courtroom.)

ALFRED WEAVER, a witness called on behalf of the Plaintiff, after having been duly sworn, was examined and testified as follows:.

THE COURT: Go ahead.

MR. ROBERTSON: Thank you, Your Honor.

DIRECT EXAMINATION

BY MR. ROBERTSON:

Q Six, could you please state your name for the record?

A Alfred C. Weaver.

Q Good to see a fresh face, Dr. Weaver. I guess we are making progress now.

THE COURT: Let's just start:

BY MR. ROBERTSON:

Q Please tell us, sir, your current occupation.

[661] A I'm a professor at the University of Virginia.

Q And what courses do you teach?

A My specialty there is electronic commerce. I do the computer networking course, two courses in electronic commerce, one undergraduate and one graduate course. And this semester I'm doing the introductory programming course that's taken by all engineers and scientists at the University of Virginia.

Q And can you briefly give us your educational background starting with college?

A Sure. I got a bachelor of science degree in engineering science from the University of Tennessee in 1971. Went to the University of Illinois. Got a master's of science degree in computer science there in 1973. Stayed for the Ph.D. Was awarded the Ph.D. in computer science at Illinois in 1976.

Q And could you just briefly describe what your duties and responsibilities are as a full—tenured professor at the University of Vermont—University of Virginia, excuse me?

A As with most large universities, tenured faculty, full professors have really three main areas of work one is teaching, the second is research, and the third is service to the professional community.

Q Do you teach a number of undergraduate and graduate courses?

A I do both, yes, I do.

[662] Q Have you ever been the chairman' of the Department of Computer Science at the University of Virginia?

A Yes, I was.

Q Have you started any initiatives within the department or with regard to your area of expertise in computer science?

A Yes. Early -

Q I'm sorry. Go ahead.

A Early on when I came to the University of Virginia, I started our first microcomputer laboratory. In 1980, I started our computer networking group. And then more recently, 1995, I started our electronic commerce activities which includes a research group called the Internet commerce group, and also two courses, undergraduate course and a graduate in that topic.

Q You mentioned computer networking. Do you consider that to be one of your specialties within your area of expertise? A Yes, sir, I certainly do.

Q Have you ever had occasion to work for any governmental agencies?

A Oh, yes.

Q Which one?

A Well, currently I've got work going on with the National Science Foundation. I have previously done work with the Federal Emergency Management Agency. I had a sabbatical at NASA down in Houston at the Johnson Space Center.

[663] Q And at NASA, can you tell us what type of work you do—that you conducted for NASA?

A At NASA, I was working on the international space station, and I was analyzing the designs that the contractors were making for the computer communications network on the space station.

Q Have you ever consulted for any companies?

A Oh, yes.

Q Can you just give us a few examples?

A I consulted with General Electric, Lockheed Martin, Honeywell, Raytheon, E-Systems, several more.

Q Have you ever been an expert in a patent case before?

A Yes.

Q On approximately how many occasions?

A Three times.

Q Have you ever testified in court before?

A Yes.

Q Have you ever testified in front of a federal judge in the Eastern District of Virginia where this case is situated?

A Yes. One time.

Q Can you tell us the name of that judge?

A That was Judge T. S. Ellis.

Q And were you qualified as an expert to testify in the area of computer science in that case?

A Yes.

[664] Q Can you tell us what type of case that was?

A That was a criminal case.

Q What did it involve?

A That involved a question of whether or not an individual had committed data theft from a bank.

Q And did Judge Ellis qualify you as an expert in that case?

A Yes.

Q And what was the outcome of that case?

A The man was convicted.

MR. ROBERTSON: Your Honor, I would offer Dr. Weaver at this time as an expert in computer science and computer networks.

THE COURT: Any questions or any objections?

MR. RANDALL: No objections.

THE COURT: Okay. He'll be qualified to testify in the fields of computer science and computer networks.

BY MR. ROBERTSON:

Q Dr. Weaver, can you tell us were you were retained by MercExchange to provide opinions in this case?

A August 2001.

Q And specifically, were you retained with regard to an analysis of the infringement and validity of the '265 patent' as it applies to defendants eBay and Half.com?

A Yes, I was.

[665] Q Have you in fact reviewed the-'265 patent?

A Yes, I have.

Q On how many

A Countless.

Q Can you tell me just generally, is there-any-kind of particular logic or sort of structure to the '265 patent that might be helpful to the jury in understanding what the subject matter of that patent is?

A Well, the general subject matter is how to buy, and sell items over the Internet, and the general structure is that the patent presents two systems. One is an electronic market in. which descriptions of items that are for sale reside, and then these can be accessed by potential purchasers by looking at them over the Internet. And then there is a system that allows a potential seller to describe his item and add a picture and post it to the electronic market so that it's available for people to look at.

Q You mentioned there is a system for posting or presenting it to an electronic market. Did I understand that correctly?

A Yes.

Q Are you familiar with the term "posting terminal apparatus"?

A Yes.

Q What's your understanding as to what a posting terminal apparatus is?

[666] A That would be a device like a computer, maybe my home computer, that is capable of sending information over the Internet. In this case, it's to the electronic market. And you also mentioned these is the electronic market which can actually present the goods to potential buyers. Is that also the subject of the '265 patent?

A Yes indeed.

Q So we have on the one hand sellers presenting goods to the market and on the other hand markets presenting goods to potential buyers. Is that your understanding?

A That's correct.

* * * *

[670] A No, not officially anyway. The government had funded the development of what we now call the Internet, and there was a proscription against using it for commercial activity. Some people did it anyway until 1995 when that proscription was lifted.

Q Do you know when in particular in 1995 the proscription for commercial activities on the Internet was lifted?

A It was May 1995.

Q Can you tell the jury what appears on the screen here?

A This is the front page, cover page of Mr. Woolston's '265 patent.

THE COURT: Do we have it on the other screen, the one next to the witness?

MR. ROBERTSON: I would hope so.

THE WITNESS: Yes, sir.

THE COURT: is that easier for you, Dr. Weaver?

THE WITNESS: I'll manage. Thanks.

BY MR. ROBERTSON:

Q Do you know when Mr. Woolston first applied for his '265 Patent?

A He has an application date on the patent. This particular one is filed November 7, but it is a continuation, in part, from an April 1995 application.

Q And is that a month before, approximately, you're your understanding is that the government opened the Internet for [671] electronic commerce operations?

A Given the date, it's a week before.

Q Why don't we go to the claims of the '265 patent, if we could, Dr. Weaver, and it should be on the screen right next to you, and let's start with just claim 1. You mentioned before that there were two aspects of the '265 patent: that is, there is the electronic market and then there was this system representing a data record of a good for sale to the market. Do you see that?

A Yes, I do.

Q Which claim is this directed to?

A Well, as you can see there in the first phrase, a system for presenting a data record of a good for sale to a market for goods. This is talking about the posting terminal that is going to allow a user to describe an item and then electronically move that information into the market for goods.

Q What's your understanding with regard to this—what this first paragraph of claim 1 consists of?

A It is hard to see or hard to read, rather. The first sentence is describing the system for goods, and then the second phrase said market for goods having an interface, etc. This is kind of providing a context for these two systems, the posting terminal and the market for goods.

Q Are you familiar with the term preamble?

[672] A Yes.

Q Do you have an understanding with respect to what a preamble is under—for a patent?

A I believe, as we see here, this preamble is setting up the general environment of which the claim is to operate.

Q The claim begins, A system for presenting a data record of a good for sale to a market for goods, and then it has a number of descriptions of what the market for goods contain. Is that your understanding?

A Yes.

Q And then it says, Said system comprising. Do you see that at the end of the preamble?

A Right. I see that.

Q Do you have an understanding as to what the term "comprising"° means?

A Yes. That means that it includes, but is not limited to, the things that are to follow.

Q So let me see if I understand. If we were to scroll down and take a look at the rest of the claim here, we have the number of elements. Do you see that?

A Yes.

Q For example, we have a digital image means, which is the first element?

A We do.

Q And then we have a user interface, second element?

[673] A We do.

Q And continuing, we have a bar code scanner, and then I think we have seven total elements. Do you see that?

A Yes. I count seven.

Q In order to infringe this claim, then, what's your understanding with regard to what the plaintiff needs to establish to this jury as to whether one of the defendants, for example, would infringe it?

A Well, the plaintiff would have to show that each and every element of those claims—the elements of those claims are present in the infringing instance.

Q What if, in addition to these seven elements, I had, for example, elements 8, 9 and 10. Would that preclude infringement of this claim?

A No. That would have no relevance on the determination of infringement.

Q So this word comprising that you indicated, that means you need to have the elements that are set forth there; but if you have additional elements or additional features or functionality, for example, does that avoid infringement?

A No. The additional elements, if there are—I shouldn't call them elements. Additional factors just don't make any difference with regard to the determination of infringement.

Q Why don't we take a look at claim 26 of the '265 patent. Again, focusing just on the preamble for the moment. The [674] first claim we looked at, at claim1, you indicated was this posting terminal apparatus or, in your instance, you said a home PC that would allow you to present a good in the electronic market. What do we have here in claim 26? What type of claim is that?

A This is the other half. This is the electronic market itself.

Q You say "other half." Can we understand, then, the '265 patent to have sort of two sides to the equation: that is, on one side we have potential sellers who are going to use this equipment to present goods for sale to the electronic market, and then on the other half we have the electronic market that are going to present goods to potential buyers, process the transaction, and do additional steps in order to complete the sale. Is that your understanding?

A That is my understanding of what the patent and the claim is about.

Q What we have done here, Dr. Weaver, is we have placed in front of you a demonstrative. Can you tell us a little bit about this demonstrative? I know you can't see it, but I think you have seen it before.

A This is the entire claim 26. And so what we should see at the top of there is the preamble and then followed by the elements of the claim itself.

Q Why don't we see if we can show some of the elements of

* * * *

[804] What is reflected at the bottom here where the two forward slashes that start with the sentence "check"?

A. Those two forward slashes is a comment in what is otherwise the programming language, and this is a note to the programmer reminding him or her what the next programming is going to do. So this says "check to see if the IP"—that is, the Internet Protocol address—"in cookie matches," and then it continues on the top of the: next page.

"To see if it matches the current IP address."

Q. There's a few things then you've mentioned in that answer. First there's this IP address?

A. Right.

Q. And I think we addressed that briefly this . morning. I don't want to rehash it, but just in a sentence can you tell the jury again what that IP address was?

A. So that is the Internet naming or numbering convention that identifies a computer, and that was that

A-dot, B-dot, C-dot, D number.

Q. Is this cookie a code?

A. Yes.

Q. Is it predetermined by eBay?

A. Oh, it's predetermined for sure, because the eBay server writes it onto the posting terminal.

Q. And can, eBay, from placing that code on your[805] computer, verify that the-code is coming from a computer that's an authorized user of eBay?

A. Yes. That's what this code does.

Q. Is that important in this case?

A. Yes.

Q. What would happen if eBay didn't use cookies to verify that the computer that's posting onto its website Was an authorized user?

A. Well then, they wouldn't infringe some of those independent claims we talked about.

Q. Would it be a practical solution?

A. Probably not. Everybody uses cookies these days.

Q. Why is a cookie important?

A. Well, it's a standard way of writing information. It's easy, it's supported by all-the web servers and browsers.

Q. Well, if I disabled the cookies, can the eBay system operate in the same way?

A. Well, not in the same way.

Q. Okay. How would it operate?

A. Well, you wouldn't be able to use the cookie to provide your verification, so instead you'd probably have to sign in again with your eBay user ID and your password each time you wanted to post any information;

Q. Well, that's why I want to understand. From the [806] seller's perspective, the person who is, in fact, posting an item for sale, if I did not permit eBay to put this predetermined identification code on my computer, would it present me with problems in utilizing eBay's service?

A. Guaranteed.

Q. And how would that impact on me as a potential seller if they didn't put this code on my computer?

A. You wouldn't be able to post anything to their site.

Q. And you indicated that eBay doesn't have to put these cookies, these codes on your computer, correct?

A. Right.

Q. Do you know if eBay's taken any steps during the pendency of this lawsuit to stop placing cookies on the computers of sellers?

A. I'm not aware of any. They were there last week.

Q. Okay. Do you know whether or not eBay's indicated that, in order to avoid infringement, it could simply disable the cookies?

A. I've read that in one of the reports that has surfaced through this case.

Q. But again, to your knowledge, eBay hasn't done that, have they?

A. They haven't done that. At least not through last week.

* * * *

[808] have testified that their system would not work without cookies?

A. Yes. Mr. Balijepalli, who is the chief technical officer at Half.com simply said straight out that Half.com will not work without cookies.

Q. You indicated that cookies today are one of the accepted protocols. Were they known in 1995?

A. Yes.

Q. Okay. Were they as common as they are today?

A. No.

Q. This fourth page of exhibit 528 under this eBay Cookie Format, it says "an eBay cookie has the following format." Do you see that?

A. I do.

Q. What if anything is significant that we should focus on here?

A. Well, I don't expect the jury to understand all the nomenclature here. This is kind of a standard way in computer science of expressing what the fields of the information are. It's called a Backus-Naur form. Down there at the bottom where you see on the left, Security Zone. This is the explanation of the content of a cookie, and that comes from the line above. So it's the explanation of what security zone is. And it says that Included in the cookie is the client's IP address.

[809] So for us, the client is the browser, and in this case, it's the seller who has to be authenticated.

Q. There is a phrase there entitled Hashed Cookie Value. Do you see that?

A. I do.

Q. What if anything do you understand that to mean?

A. The hashed cookie value, well, that's an even more technical topic. The eBay cookie system uses another

industry agreement of a hash function called MD5, Message Digest 5. And what it does is to, it computes a function over the cookie and produces something, I'll just call it a digital fingerprint. It's a number with lots of digits in it. Like 50 digits. You can only get that digit by making this computation, or you can only get that number by making this computation. And the whole purpose of that is you can't fiddle with the parts of the cookie. You can't change them and then have it hashed to that same value. So it's a protection and security mechanism.

Q. Now, do you recall during your deposition you were asked a question by Mr. Sorbet, one of eBay's counsel, with regard to whether or not you could simply take a cookie from your machine and perhaps go down to a colleague's computer, place that cookie on it, and then eBay would recognize that computer as you?

A. Right. I remember that question well.

[810] Q. Okay. And at the time what did you indicate?

A. I thought it would work.

And then when I thought about that some more, I was curious about that and I reread this document. And according to this document, if you moved that cookie, that changes some of the environment variables with which this cookie was hashed, and so now I think it will not work.

Q. Is the hashing of the cookie intended to prevent that incidence?

A. Yes.

Q. Have you ever heard of hashing to be compared to—is there any analog for hashing, for example, that would indicate that it's unique?

A. That hashes are unique?

Q. Yes.

A. Well, let's say if not absolutely unique, with a well-defined hash function, there's extremely low probability that you Could hash information and get the same—that you could hash different information and get the same hash value.

Q. Are you familiar with the term a digital fingerprint?

A. Yes.

Q. Is a hashed cookie value a digital fingerprint?

A. I think that's kind of a big-picture way of [811] looking at it, yes.

Q. If I simply removed the client-IP address, is a cookie still a predetermined code?

A. Yeah. Because it was written there by the eBay site.

Q. So the fact that the IP address is part of this code or not part of this code really doesn't matter as about whether or not it's a predetermined code that's been placed on your computer terminal for purposes of authenticating that terminal; is that correct?

A. Right. The cookie, whatever it is, whatever its content, is written onto your machine by eBay. So whatever's there, that's the code.

MR. ROBERTSON: Your Honor, might this be a good breaking point?

THE COURT: We'll take our break.

(Recess taken.)

THE COURT: Mr. Robertson?

MR. ROBERTSON: Thank you, Your Honor.

BY MR. ROBERTSON:

Q. Dr. Weaver, before the break we were talking about exhibit 528, which was entitled the Engineering Requirements document for the V3 Cookie Design and Implementation, and specifically we were on the page that ended with 038. Do you recall?

[843] ROBERTSON:

Q. Dr. Weaver, claim 26 recites an electronic market for use with a Posting terminal apparatus. Is it your opinion that eBay is an electronic market?

A. Yes, it is.

Q. Is it your opinion that they're an electronic market as this Court has defined that term?

A. Oh, yes.

Q. And when you posted goods for sale and through [844] these demonstrations, did we have a positive terminal apparatus that used a digital imaging device for creating a digital image of a good for sale and a computer interface for creating a data record of the good for sale and a communication interface for communicating with the electronic market?

A Yes. We had all of those.

Q Does eBay have a communications interface for communicating with the Posting terminal apparatus?

A. Yes, it does. We saw that.

Q Just refresh us on chat that was.

A. That was the Internet connection.

Q Does eBay have a Posting communications handler operably connected to the communications interface, the communications handler receiving inputs for a data record of the good for sale from the posting terminal apparatus, the communications handler detecting a predetermined posting terminal identification code from the posting terminal apparatus verifying from the code that the Posting terminal apparatus is an authorized user of the electronic market? Does eBay have that element?

A It does. We saw it. We saw documents describing the cookies and we saw documents describing the API and the verification Process.

Q Does eBay have a storage device that's operably [845] connected to the posting communications handler, the storage device adapted to receive and store a data record of a good for sale, the data record indexing an image of the good for sale, a textual description of the good for sale, and a code for the good for sale?

A. We saw all of those in the demonstration and we saw documents explaining the use of the Oracle relational database.

Q Dr. Weaver, does eBay have a presentation mapping module operably connected to the storage device and a wide-area communication network, the presentation mapping module providing via the wide-area communication network, an interface to the electronic market for a participant, the presentation mapping module providing the participant with access to the data record, textual description and image of the good for sale?

A. Yes. We saw that in the demonstration several times as we were able to do a View Item and see the Item that is available for sale. That's the operation of the presentation mapping module.

Q Dr. Weaver, does eBay have a transaction processor as part of its system, operably connected to the wide-area communication network and the storage-device, the transaction processor adapted to receive a Purchase request and electronic payment information from the participant [846] transfer the purchase request to the posting terminal and verify the electronic payment information from the participant, and if the electronic payment verifies, then notify the owner of the good for sale by modifying a data record indexed to the data record for the good for sale to reflect the purchase request of the good for sale by the participant?

A. Yes. We saw that when we made a sale. And the credit card was processed.

Q Dr. Weaver, does eBay have a notification module operably connected to the transaction processor, the notification module providing notification to the posting terminal apparatus, in response to the transaction processor processing the purchase request and verifying the electronic payment information?

A. Yes. It does. We saw that twice. Once with the email and once with the updating the status of the goods.

Q Dr. Weaver, in your opinion does eBay infringe claim 26?

A. Yes, they do.

Mr. ROBERTSON: Your Honor, may I present claim 15 to the jury?

THE COURT: All right.

BY MR. ROBERTSON:

[970] BY MR. RANDALL:

Q. Mr. Weaver, you testified earlier about eBay's positions about some things. I want to ask you about MercExchange's positions. MercExchange's position al along has been the '265 patent does not require a trusted network, correct?

A. Sorry. No. The Court's ruling was the trusted network, and certainly we adopted that.

Q. And before that, MercExchange's position and your position was that the claims do not require a trusted network, correct?

A. Our position was that it actually didn't matter. So when the Court construed the term to mean trusted network, that was not a problem.

Q. And you agree with—you've read the Court's Markman opinion?

A. Yes.

Q. And you agree with everything in it, correct?

A. Well, yes.

Q. Thank you. With respect to authorizing posting terminals, you're familiar with that requirement in the '265 claims?

A. Yes, sir.

Q. MercExchange's position there was that if you authorized users, that that would satisfy that element. And

* * * *

[972] A. Yes.

Q. And you now know that the '265 claims require transfer of legal ownership, correct?

MR. ROBERTSON: Objection, Your Honor. That's not the Court's instruction. It misstates the Court's Markman ruling.

THE COURT: He can answer the question. You know, read the glossary and then—I'm sure you have. I'm not telling you to—

THE WITNESS: Sure. I was going to read your instructions. Let's see which paragraph that is.

THE COURT: Can you help him out? Do you know?

MR. ROBERTSON: Paragraph 20, Your Honor, your glossary.

BY MR. RANDALL:

Q. Let me see if I can speed this long. You agree, do you not, Dr. Weaver, that at least claims 8, 15, and all of its dependent claims, require transfer of legal ownership, correct?

A. Transfer of legal ownership.

Q. Is that right?

A. Transferred ownership

MR. ROBERTSON: Objection, Your Honor. That again misstates the claim.

[973] THE COURT: Why don't you read is this 20? Is this paragraph 20?

MR. ROBERTSON: It's paragraph 20.

THE WITNESS: Paragraph 20.

THE COURT: Okay.

A. "If said payment means clears, then transfer the ownership of said good for sale by modifying said date record of said good for sale to reflect the new ownership of said good for sale by said participant." So certainly it says transfer ownership.

Q Thank you.

MR. ROBERTSON: Well, Your Honor -

MR. RANDALL: Wait a minute, Your Honor, this is -

MR. ROBERTSON: That's not the Court's construction. That was the claim language. I thought you asked -

THE COURT: Yeah. Read the Court's construction.

A. "If the payment made by a participant for a good for sale clears, then the legal ownership of the good is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner." So this is saying that that legal ownership is affected by modifying the ownership entry.

* * * *

[983] of ownership requirement, right?

A. Yes.

Q. Now, that's required by claims 8, 15 and the dependent claims that flow from that, right?

A. Yes, that's correct.

Q. And those dependent claims are 9 through 14 and 16 through 21, correct?

A. 16 through 22, but all of those are not asserted, 9 as you know.

Q. All right. And just so we all understand the issue here, and we've already talked about transaction processor, but I want to talk about eBay, because before we left you said that you thought eBay transfers legal ownership of goods, correct?

A. What I said was that eBay, PayPal and Billpoint are very difficult to distinguish. And what the claim says is that transfer of ownership is affected by modifying the data record. And what I showed is that the data record had been modified. That was the point I was making.

Q. All right. Well, the record will speak for itself, and it's been transcribed. But I want to ask you about, if eBay does

not transfer legal ownership of the goods, would you agree—strike that. If eBay and Half.com do not transfer legal [984] ownership of the goods by whatever mechanism, then you would agree that neither eBay nor Half.com infringe claims 8, 15 and the dependent claims, correct?

A. I think that, that's a fair statement, because the Court's construction was that legal ownership of the good is transferred by modifying that data record.

Q. Now, I understand you disagree with this point, but I still want to ask it. If, in fact, claim 26 requires transfer of ownership of a good, then you would agree that claim 26 and its dependents are not infringed if eBay and Half do not transfer legal ownership of a good, correct?

A. That's right. But to do that you would have to overrule the Court's decision.

Q. Well -

A. The Court's construction of the claim.

Q. The jury hasn't been instructed yet, have they?

A. Actually I don't know.

Q. Okay. Does eBay know who owns goods that are listed on its site?

A. Help me out. Is this eBay the company?

Q. Yes.

A. EBay the computer? How much personification is in that question?

Q. Well, you've been using eBay to say that eBay infringes?

* * * *

[990] Q. Well, that's after the fact, isn't it, sir? A payment confirmation, that means something's already happened, right?

A. By confirmation I mean the exchange of data between PayPal and eBay or between Billpoint and eBay that says payment for this good has been processed, and the fact that information is sent back to eBay indicating that the payment

has cleared and that here's the new owner of the good. That's what I think authorizes eBay to change the those data records.

Q. Are you relying, sir, on any contract or any written document that, in your opinion, gives eBay the right to transfer ownership to goods?

A. I think that's just common sense, that when the item is paid for, there's a new owner.

Q. Well, my questions really are geared towards finding out how, in your opinion, eBay comes into that position of being able to transfer ownership. And you said that you believe they are authorized to transfer ownership, and so my questions really are pointed to what evidence do you have that you're relying on to say that eBay, all of a sudden, becomes authorized at some point when payment's made, to transfer ownership?

A. Let me try to explain that again. The very fact that PayPal and Billpoint are processing the payment and

* * * *

[995] ownership.

Q. You're not a lawyer, and you don't have any legal experience, correct?

A. Correct.

Q. Okay. Assume for a moment that, with respect to the goods listed on eBay and Half.com, that they are governed by the Uniform Commercial Code. Would you agree that the transfer of legal ownership does not occur until that good is actually delivered to the buyer?

A. I just don't know.

Q. EBay does not deliver the goods to the buyer, correct?

A. Correct.

Q. Okay. And if the UCC applies, you would agree that eBay does not transfer ownership of the goods; is that correct?

A. I just, I really don't know.

Q. Would you agree that eBay does not—strike that. If the UCC applies, would you agree that eBay cannot possibly transfer ownership of the goods by modifying a data record?

MR. ROBERTSON: Objection, Your Honor. This is now argumentative. It's been asked and answered.

THE COURT: Sustained.

BY MR. RANDALL:

* * * *

[1036] A. At some point in the past?

Q. You didn't—

A. Well, the point in the past was before the Markman ruling.

Q. I understand that.

A. Yes.

Q. But that's what their position was, right?

A. Yes.

Q. Okay. And so you understand, do you not, sir, that if the jury finds that eBay and Half.com do not have this trusted network within the meaning of this patent, that eBay and Half don't infringe any of the claims, right?

A. Probably true.

Q. It is true, isn't it, sir?

A. To the best of my knowledge, yes.

Q. Would you agree, sir, that neither eBay nor Half owns the goods that are listed on their site?

MR. ROBERTSON: Your Honor, this has been asked three times today now.

THE COURT: I think it has.

BY MR. RANDALL:

Q. Would you agree that neither eBay nor Half takes title to the goods that are listed on their site?

A. Yes.

Q. Would you agree that neither eBay or Half [1037] possesses the goods that are listed on their site?

A. Yes.

Q. Would you agree that neither eBay nor Half inspects the goods that are listed on their site?

A. Yes.

Q. Would you agree that neither eBay nor Half vouches for the quality of the goods that are listed on their site?

A. No.

Q. And how do they do that, sir?

A. Because if I were to post something that is illegal: firearms, drugs, then eBay will inspect the descriptions, and if I—let's say that I'm trying to sell a firearm. EBay will notify me that I can't do that, that that's illegal.

Q. There are certain items like illegal items and racially insensitive items that eBay tries to avoid having those listed on their site, right?

A. Yes, that's right.

Q. And that's it? That's the extent of your basis for your opinion that eBay or Half vouches for the quality of the goods; is that right?

A. Well, in addition to that there is also the terms of the user agreement, and there's also the expectation that you see in the feedback forum -

Q. There is—

[1038] A. —that the seller will perform and that the buyer will perform.

Q. There's nothing in the user agreement about eBay vouching for a particular quality of goods on the site, correct?

A. Okay. I think that's right.

Q. All right. You'd agree that neither eBay nor Halfdescribes the goods listed on their site, correct?

A. The descriptions are provided by the posting terminal, yes.

Q. By the sellers right? Not a machine, right?

A. By the seller or the seller's software.

Q. Or the seller or someone else who is doing it for the seller, right?

A. Yes.

Q. All right. Would you agree that neither eBay nor Half—strike that. The seller can enter any description they like under eBay or Half, right?

A. Yes.

Q. And the seller on both eBay and Half ships the goods, right?

A. Yes.

Q. And the seller on eBay and Half owns the personal computers right? Or strike that.

* * * *

[1049] Q. Do you have it now, paragraph 17?

A. Yes, I have.

Q. And you see the Court's construction there. Let me read it you. It says that, Recitation only requires that the posting terminal apparatus is verified as an authorized user of the market apparatus. Do you see that?

A. I do.

Q. Do you recall whether or not that eBay argued to the Court that a unique code was required for each posting terminal?

A. Yes.

Q. Did the Court accept that argument?

A. No.

Q. You were asked some questions about the UCC, do you remember that? The Uniform Commercial Code Commercial Code?

A. Right.

Q. And you indicated you didn't have familiarity with correct?

A. And I still don't.

Q. So you don't know that the UCC applies to custom and trade between commercial merchants, do you?

A. No.

Q. Do you know whether or not there's been any specific finding about the UCC with respect to individuals [1050] who post goods and sell over the Internet?

A. I'm clueless.

Q. And as far as the pages we saw—

MR. ROBERTSON: Could we see H6, please?

BY MR. ROBERTSON:

Q. The first phrase that's not highlighted says "Unless the context otherwise requires." Do you see that?

A. I do.

Q. Are we in a virtual context in the environment we're talking about with eBay?

MR. RANDALL: I'm going to object. I don't know, there's no definition of what—it's vague and ambiguous as to what he's talking about.

THE COURT: Overruled.

A. We said yesterday and again today that the whole context of the Internet is a virtual world. Virtual presentment of goods is the way the patent describes this. So yes, it's a virtual world.

Q. Might be a different context then; is that correct?

A. It might be.

MR. ROBERTSON: How about H5, can we see that one, please?

BY MR. ROBERTSON:

Q. It says "Unless otherwise"—well, let me strike

* * * *

[1080] MR. STILLMAN: Thank you, Your Honor. Our first witness this morning is Michael May.

MICHAEL MAY, a witness called on behalf of the Plaintiff, after having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. STILLMAN:

Q Good morning, sir.
A Good morning.
Q Could you tell the jury and the court your full name?
A Michael Paul Hay, M-A-Y.
Q Where do you live, sir?
A I live 7622 Fairway Drive, Omaha, Nebraska.
Q I'm sorry?
A Omaha, Nebraska.
Q What do you do for a living?
A I am the chairman of a company, ISecureTrac Corporation, which produces tracking systems to be used in criminal justice to track offenders, and I'm also a member and a director of MercExchange.
Q When did you first become involved with MercExchange?
A I first became involved with MercExchange sort of indirectly through involvement with Aden Corporation.
Q And what was your involvement with Aden?
A For a brief period of time, from January of 2000 till [1081] April 1st of 2000, I was vice chairman of Aden.

THE COURT: Excuse me one second. I forgot to ask you all. Were those patents copied?

MR. STILLMAN: Yes, they were.

THE COURT: They need to be given to the—

MR. STILLMAN: Do you want to do it now?

THE COURT: Hight as well. I didn't mean to interrupt you, Mr. Stillman, but I just forgot about it.

MR. STILLMAN: Yes, sir.

THE COURT: Have you seen them?

MR. RANDALL: No.

THE COURT: Those are certified copies?

MR. STILLMAN: I understand you wanted both the '176 and the '265?

THE COURT: That's correct. Do you have one, Hr. Randall? I would think you do.

MR. RANDALL: Yes.

THE COURT: Mr. Stillman, why don't you ask your question again. I'm sorry. I did not mean to interrupt you.

MR. STILLMAN: That's quite all right.

BY MR. STILLMAN:

Q I think I was asking, Hr. Hay, about your initial involvement with Aden. I think you were answering that question.

A Well, I first began discussing joining Aden in the fall [1082] of '99, and that's when I first met Tom Woolston.

THE COURT: Mr. May, would you mind moving that mike a little closer to you.

THE WITNESS: I'm sorry.

THE COURT: There you go.

THE WITNESS: Probably will lean forward, too.

BY MR. STILLMAN:

Q What were the circumstances of you meeting Hr. Woolston?

A Mike Luther was the chairman of Aden and had been recruiting me to join Aden. As part of my due diligence, I wanted to spend time visiting with some of the people that

were key to Aden. And also Tom was in the middle of putting an office in Alexandria where he had a subsidiary called Navlet of Aden that was coming up with some programmers and some activity. I wanted to investigate that.

Q Were you an officer of Aden at the time that MercExchange entered into its first agreement with Aden?

A No. That occurred several months before I arrived.

Q So when you arrived initially on scene, there was already an agreement between MercExchange and Aden: is that right?

A Yeah. There was an agreement between Mere and Aden to utilize MercExchange's intellectual property, there were license agreements in place, and there was some arrangements for stock and other things.

Q Describe for us, if you would, the circumstances whereby [1083] you ultimately became a managing director of MercExchange.

A All right. In the 90 days that I was at Aden, from January through March of 2000, I spent quite a bit of time with Navlet and Tom. I just couldn't work with Hr. Luther. It was just there were several things that weren't happening that we thought should happen.

And so after I left, I stayed in touch with Tom. About 45 days after my departure, sometime in mid-May, Tom called me, said that he had—also had some disagreements with Aden. They weren't fulfilling their contracts, basically. And so I then became involved in helping Tom structure a departure between HercExchange and Aden to sort of unravel the license; and get the intellectual property back in Merc-Exchange's hands. So that started probably mid-May.

Q Mid-May of what year?

A Mid-Hay of 2000.

Q And were you ultimately successful in unraveling the relationship between Aden and MercExchange?

A That occurred. The licences were returned, Aden made a small settlement payment, and MercExchange began to operate as its own business again. And in the middle of all that, I was also helping Tom with some other things that were happening around HercExchange. That was prior to me joining.. I hadn't joined MercExchange.

Q What other things were you helping HercExchange with at [1084] the time?

A Well, Tom was trying to build up a programming staff and an enterprise and putting a business—wanted to put a business together. He also had some discussions with eBay about the patents, and I was involved in one of those meetings and in some of the discussions around that.

Q What role, if any, did you play with respect to advising MercExchange regarding the development of its business plan?

A Well, about probably August of 2000, Tom asked me to become a member of MercExchange.

Q What does that mean, when you say "become a member"?

A Well, MercExchange is an LLC, and so—

Q What is that?

A It's a corporation. But instead of shares in the corporation, they are actually units of ownership. Those owners that have units, or at least in our operating agreement, were called .members. So I was a member, an owner of MercExchange.

Q And what role did you have with respect to the development of any business plan for MercExchange?

A We had recovered from Aden the licenses and also some of the software and technology. And so there were two things that were going on within MercExchange. One, and the principal one, was to try to build a business around those inventions. And I was involved in helping Tom try to sell [1085] basically MercExchange's technology and services to some companies.

We had meetings with Christie's up in New York, we had—there was a travel company in Tampa called IFly, another company. I think it was TigerDirect. There were a few companies like that that we were talking with, and I was involved in that. Also helping him internally to set up project management and some things that were necessary, because he had five or six programmers at that time that there working on things pretty feverishly.

So on the other side we were also trying to develop a licensing program for MercExchange for its intellectual property, principally its patents. And I had had some experience. I had run a software business for several years with a public company, and so I was trying to help put in place the licensing program.

Q Let me ask you to focus for a minute, if you would, on that portion of the business plan wherein MercExchange was trying to develop a business of its own for a moment. Could you describe what MercExchange was about during this time period in terms of developing its own business model?

A Well, it had the patents pending. It had the—what's now called the '265 patent as well.

Q What time frame are we in?

A We are—this would be September, October.

[1086] Q What year?

A Of 2000. The original intent that was -- Tom, I know at Aden, was to build and Aden was going to be the vehicle to basically build an e-commerce system that would allow companies to—or individuals to buy and sell goods over the Internet. And so that was what they were attempting to build.

Q Do you know whether that was intended to be a complete commercialization of Mr. Woolston's patents?

A Well, I mean, I don't think they were writing the software, you know, to mirror only the patents. I mean, it was a broader initiative than that. There were several things going on related to, some things unrelated to that, all part of an

overall attempt to have an enterprise that could be a real company and run that way.

Q How successful was MercExchange in building a business? A Not as successful as they were in building software. It was pretty hard. I think at that time—I mean, I spent some time trying to find companies that were really interested in utilizing MercExchange's facilities.

But honestly, eBay owned a lot of that market already in terms of being able to serve that market. And there were other companies like Yahoo and Amazon trying to break in, and even then there were venture capital-backed companies out in—principally out in California. So there were a lot of people ahead of him.

[1087] Q As a result, did MercExchange eventually abandon its attempts to build a business of its own?

A Well, I came to Tom sometime before Thanksgiving of 2000, and, you know, I said that—you know, it was really my own business judgment, that MercExchange didn't have the resources to both build an enterprise, first of all, and then try to also pursue the licensing. He was running out of money.

To me, it made the most sense to take the assets that I thought MercExchange already had, the patents and the legal rights to some of this technology, and attempt to build a licensing program, because we did have the resources to do that. I recommended that we shut down all of that programming side. It was kind of a bitter pill for Tom, I think, but we gave all those programmers some notice, and by the end of the year they had all been let go.

Q Now, you mentioned that you were involved as an owner and managing director in the development of a licensing program. Could you explain to the jury what a licensing program is?

A Well, the intent was to take the patents, but also some of the technology that—software and things that had been built starting at Aden, and then—through the six months or so, and create an opportunity for other companies to use that by providing them essentially with the license or an agreement to use that in return for either a one-time payment or some payment while they used it. So it would basically give them a [1088] contractual right to use the technology and use the patents.

Q And did you, in fact, attempt to negotiate on behalf of MercExchange any license agreements?

A Yes, we did attempt to do that. I learned that my software experience wasn't an transferable because the patents have some unique aspects to them that make it somewhat challenging, I think.

Q Who specifically did you talk with?

A Well, you know, I mentioned some of the companies that we had made calls on earlier, and those were companies that we also talked to, Christie's and IFly is a travel company. We had had discussions with eBay. I had been involved in those early. And after we made the decision to shut done, we really hadn't had anymore discussions with them. We approached a company Goto, Goto.com. And then actually had some phone calls and some correspondence with Yahoo, with the person there.

Usually what I found is—I'm not an attorney, and I would—with any company of any size or even, the smaller ones, I kept getting pushed over to the legal department, which was something difficult. So that's why I said we weren't necessarily getting a lot of traction.

Q Why weren't you getting traction?

A It seemed to me that the companies that had already started working in an area really didn't want to spend a lot [1089] of time looking at your patents.. If there were legal rights, that's where they said, well, I guess that has to be determined. So it just wasn't a situation where companies

seemed very inclined to want to talk to you. And I had been informed by our attorneys to be very careful in how far I approach somebody, because a lot of times, companies with greater resources would try to act preemptively. They would—I learned a new term, which they said DJ, but—

Q What does that mean?

A Well, as I understand it, what I was cautioned about is approaching a company about our patents and finding that they—out of concern that we might sue them, would actually file a suit against us in the court somewhere. I think I was told that happens a lot with—especially when you are a smaller company and don't necessarily have the resources to go defend yourself at a lot of places. You could get mired down very quickly in places and just, you know, bleed the money out.

Q As a result of some of these early failures to license your patents, did you and MercExchange make a decision about how you needed to go about this licensing program?

A Yeah. It became very clear to me that it's a legal right, but it's only a legal right if you enforce it. And so we made a decision that we would, within the resources that we had, attempt to begin to basically force companies to honor [1090] our patents. And we started with identifying Goto because we were—had had some discussions, were familiar with them, and really felt in the end that we could get them to take a license.

Q Did you eventually also have discussions with a company called AutoTrader.com?

A Eventually we did, yeah.

Q When was that?

A The first discussions with AutoTrader.com really weren't until November of this last year, 2002.

Q And what was the business of AutoTrader.com?

A AutoTrader.com was an affiliate of AutoTrader. Auto-Trader has the little magazines where people advertise, and you can find them in stores and Quik shops and things

like that. And so essentially what AutoTrader.com is, take that concept and put that online. They were working with eBay as the basic company that presented that to the world, to the users.

Q How did AutoTrader.com make money?

A They made money on the listing fees.

Q What does that mean?

A When somebody chose to list with AutoTrader and put it in the magazine or put it online, there was a small fee that was assessed. Like a one ad, I believe, basically how I would relate it. That's my understanding. [1092] marshal to show him Exhibit 731, Plaintiff's Exhibit 731.

THE DEPUTY CLERK: Do you have a volume number?

MR. STILLMAN: Probably do. I have a copy of it. We can do it this way. That might be easier. Maybe you can—give one of those to the court.

BY MR. STILLMAN:

Q Mr. May, I have put in front of you an exhibit that's been premarked as Plaintiff's Exhibit 731. Could you tell the jury what that is?

A It is a license agreement between MercExchange and AutoTrader.com wherein MercExchange is granting a license or a legal right for AutoTrader.com to utilize the MercExchange patents to operate its online listing services.

Q And what did MercExchange receive for this license?

A Well, what we were trying to do with all of our licensing was to have two components. And so we had—in this case we received a one-time nonrefundable license fee for issuing the license of $450,000. And then the second component of that was tied to an ongoing royalty that would be established, but only based upon AutoTrader.com's activity levels. And also I think there was another caveat in there. Basically—yeah. The final stipulation on the royalty itself was that MercExchange had to be successful in

obtaining an injunction against eBay in operating in that motor field or the- automobile listing field.

[1093] Q Why was AutoTrader unwilling to pay you an ongoing royalty absence your ability to obtain an injunction against eBay?

A Well, they were arguing that the value of our patents would be very limited unless eBay either had a license or was enjoined from practicing.

MR. STILLMAN: Your Honor, I offer 731.

THE COURT: All right.

(Plaintiff's Exhibit 731 was received.)

MR. STILLMAN: Mr. May, answer any questions that Hr. Randall may have.

CROSS-EXAMINATION

BY MR. RANDALL:

Q Mr. May, how much of the settlement that Goto.com paid MercExchange was attributable to, if you know, Goto's desire not to continue paying a team of lawyers to litigate the case and ultimately try the case?

A I wouldn't really know. I really wouldn't know that. I mean, we were pretty—actually, we were pretty close to going to trial, so I assume they had already spent a lot of that money.

Q How long had that litigation been going on, sir?

A Since—we would have filed that in 2000. Fall, October. I don't know the exact starting date. I believe the settlement was in June and the trial was scheduled, I think, [1094] for July.

Q MercExchange settled the Goto.com litigation before the court ruled on whether or not the '176 patent was invalid in light of Dr. Keller's prior art that he had submitted in a declaration, correct?

A If you say so, I guess. I mean, I don't know.

Q You don't know that?

A No.

Q You were part of MercExchange at the time, were you not?

A Yes.

Q And you don't know that MercExchange settled on the eve of -- before the court ever considered whether the patent was invalid based on that evidence that was submitted to the court?

A Well, I know that we were set for a trial to determine infringement and validity. I don't know about—was it Dr. Keller or Mr. Keller?

Q Dr. Keller. You didn't know that there was a pending motion for summary judgment, that the '176 patent, the only patent in that lawsuit, was invalid in light of Dr. Keller's prior art?

A There were a lot of motions, so no, I didn't know that specifically.

Q How many lawyers would it have taken Goto.com to assemble a team and come to Norfolk and try that case, and how much [1095] would that cost, sir?

MR. STILLMAN: I'm sorry. That's not a fair question.

THE COURT: Sustained.

BY MR. RANDALL:

Q You have no idea, do you not, sir, about whether Goto.com settled that case to just avoid the additional expense of the. trial?

A My belief is they settled it because they believed that they infringed.

Q Do you know—strike that. Do you agree that the AutoTrader license doesn't have anything to do with fixed price sales, correct?

A I'm not sure I understand the question. I'm sorry. Let me try to understand. Try it again.

Q The AutoTrader license addresses royalties only for AutoTrader's auction format, correct?

A As opposed to?

Q As opposed to their fixed price sales.

A I see what you are saying. I'm sorry.

Q The AutoTrader license—

A Yeah.

Q —addresses royalties only for AutoTrader's auction format, right?

A Yes.

[1096] Q And this case does not involve auctions, correct?

A Our case?

Q That's right.

A My understanding is that the auction part of that has been excluded from this trial, yes.

Q And did MercExchange tell AutoTrader that when it received the money and when AutoTrader executed this license, that MercExchange would not be able to enjoin eBay's auction of cars?

A We didn't tell them we'd be able to enjoin anything about eBay. We had no reason to represent we didn't enjoin eBay on anything.

Q. Did you tell AutoTrader, before they executed this license, that this case only involved fixed price sales and not the auction format that is the subject of their license?

A Well, no, I did not represent that to AutoTrader. What we did is provided them with all of the court material that was available to provide them with. Provide them with our patents and, you know, let them decide for themselves what the implications were. I certainly didn't represent to them that we didn't enjoin or do anything else.

Q According to the AutoTrader license, AutoTrader is only required to pay royalties, number one, if they agree, right; because they have an opt-out clause, which means that they can at any time say they don't have to go forward with the

* * * *

[1098] A Okay.

Q Is that about right?

A I can do the math, but I'm sure.

Q And how many cars do they sell today?

A I don't know how many cars they sell today.

Q 450, does that sound about right?

MR. STILLMAN: I think he just said he doesn't know, and now Mr. Randall is testifying.

THE COURT: Do you know?

THE WITNESS: No, I don't know.

THE COURT: Okay. Next question.

BY MR. RANDALL:

Q You talked a little bit about why you joined MercExchange and you had done some due diligence; is that right?

A Well, that was—the due diligence I was doing was really on Aden Enterprises, not so much on MercExchange at the time.

Q You talked about the limited resources that MercExchange had when it decided to stop this effort about starting a business, right?

A Right.

Q You were on MercExchange Board of Directors in October of 2000, correct?

A Yes.

Q And at that time MercExchange valued itself, including [1099] all of its patents, at $50,000, correct?

A I don't know that that's correct. I mean, for some purposes we did, yeah.

MR. RANDALL: Would you pull up Defense Exhibit 405, please?

THE WITNESS: Okay. Yes. Reflected book value for the assets, yes.

MR. RANDALL: Go to the first page of that. Why -don't we go to Resolution number 5; Blow that up.

BY MR. RANDALL:

Q In Defense Exhibit 405, I'm showing you what's Resolution number 5. Can you blow that up, Mr. Davis? Does this refresh your recollection that, in fact, in October of 2000, through a resolution of the board at MercExchange, that the board set the value of the entire company at $50,000?

A Well, as the resolution says, that was for purposes of valuing the new units so that we had a basis to declare the value of those units and pay taxes or whatever on it. That's, you know, from—I'm not a professional appraiser, but the experience that I had is that, as it says here, there is a book value for the assets which is one thing.

And then we have also—if you are talking about the units, they aren't as valuable because you can't buy and sell them like you could a share of stock or something else. So typically you would value those for purposes of the award [1100] of units. You value that at a lower value than you would if you could freely trade them. So we were trying to arrive at a value, at least, because we had to declare something for purposes of the award of units.

Q Well, the $50,000 that MercExchange agreed to set the value at was for tax purposes, so that you all knew how much you could report on your taxes, about how much stock you owned, and the value of that stock, right?

A Well, it was to establish a basis for the ownership so that at a point in time, you know, you could look at that and say it's either increased or decreased.

Q But establishing the basis means that you established a cost—a price of that company at that time for tax reporting purposes, correct?

A Sure. Correct.

Q No doubt about that, right?

A Right.

Q And so you all would report for tax purposes that the entire company, including all the patents, was worth $50,000, right, in October of 2000?

A You are going to have to go to our accounting records and see what they put in. I mean, this doesn't relate directly to the books of the company. This relates to the value that the owners that were awarded units were put on those awards so that we—because that's compensation.

[1001] Q For tax purposes, right?

A Yes. Yes.

Q And you were on the board in October of 2000. You voted for this, didn't you?

A Yes, I did.

Q And you agreed at that time that, to the best of your knowledge, the entire company was worth $50,000, right?

A Yes.

Q And so did Mr. Phillips and so did Mr. Woolston, they both voted on this, right?

A Yes.

Q And the other purpose for this valuation of $50,000 was to so that you and Mr. Phillips and Mr. Woolston could buy out the ownership interest of your employees, correct?

A No. I don't believe that—I'd have to go back and honestly see if this resolution is directed to that. I don't know that that was really the case.

MR. RANDALL: Go to the last page.

BY MR. RANDALL:

Q This is the last page.

MR. RANDALL: By the way, Your Honor, I move Exhibit 405 into evidence.

THE COURT: 405 is admitted.

MR. STILLMAN: I can't see because my page is cut off in the pretrial order. I don't know what—

[1102] THE COURT: It's okay.

(Defendants' Exhibit 405 was received.)

BY MR. RANDALL:

Q This is the end of Exhibit 405, which was a resolution by MercExchange, and it is signed by the three MercExchange board members that were present at the meeting, correct?

A Yes.

Q And the signatures are as follows: Tom Woolston, Michael May, and John Phillips, correct?

A Right.

Q And you all agreed, did you not—and can you blow that language up? It says, "The undersigned managers waive the requirements of Notice of Meeting as required to hold a meeting of the MercExchange Board of Managers for the meeting being held October 15, 2000." Do you see that?

A Uh-huh. Yeah.

Q What other individuals were members of the board at that time?

A I think that would be—we'd be the only members of the board at that time, board managers.

Q Let me direct your attention to Exhibit 404. Can you pull it up? Do you recognize this, sir, as—if you can blow up the first paragraph of that—as minutes of a meeting of the Board of Managers of MercExchange? And this board meeting was held on June 14, 2001. Do you see that?

[1103]A Yes.

Q You were a member of the board at that time, correct?

A Yes.

Q And so was Mr. Woolston, Mr. Phillips, correct?

A Yes.

Q And this document memorializes what happened t that boarding meeting, correct?

A Yes.

MR. RANDALL: Your Honor, I would move Exhibit 404 into evidence.

THE COURT: 404 is admitted.

(Defendants' Exhibit 404 was received.):

BY MR. RANDALL:

Q Who else was a member of the board at that time?

A I think we were the only members of the board managers

Q Now, is this about the time, June of 2001, that MercExchange decided to redirect its efforts from trying to build a business to licensing?

A No. This was some months after that.

Q After this date, did MercExchange ever attempt to resurrect this effort to build a business?

A After the 2001 date?

Q Yes.

A No.

Q And when you talked on direct about MercExchange's [1104] attempts to kind of 'build this business, you are not aware of any attempts on behalf of MercExchange to build a business between 1995 and 2000, correct?

A Would you repeat that?

Q Your testimony was that sometime in 2000 there was some effort by MercExchange to build this business and create software, right?

A Well, I believe my testimony was that they were continuing an effort that had started in '80 (sic). So yeah, there was an effort going on, but that effort had begun in 1999.

Q And, I'm sorry, if I forgot. Were there any other board members at this time in June of 2001?

A I don't believe so, no.

Q this board meeting—and I direct your attention to the fourth paragraph down where it says, "The first order of business. The first order of business was to review and approval of Resolution 1, ratifying the company's agreement to settle its litigation with Goto.com," correct?

A Yes.

Q That settlement had already occurred by the time you had this meeting, correct?

A Yes.

Q And so the board was basically approving something that Mr. Woolston had done already, correct?

[1105] A Ratifying it, yes.

Q. Means approving?

A Approving.

Q Right.

A After the fact.

Q Right. The next paragraph states, "A motion was made to approve Resolution 2, authorizing the company to further investigate, and if deemed necessary, to initiate legal action against Auction Watch for infringement of the '176 patent." Do you see that?

A Yes.

Q It was passed by unanimous vote, correct?

A Yes.

Q So at that time you wanted to sue Auction Watch, right?

A We wanted to determine if it made sense to sue Auction Watch.

Q Would you scroll down to about the middle of—this paragraph that we see here, where it starts—the paragraph starts, "Mr. Woolston presented a summary of the proposed budget for the company for the remainder of the calendar year." Do you see that?

A Yes.

MR. RANDALL: Can you blow up from starting in the middle of that subparagraph where it says, Each nonemployee manager? Just go all the way down. There you go.

* * * *

[1107] salaried officers and employees, shall be eligible to receive bonuses. These bonuses, if any, are to be tied to the success of the company in its licensing activities." Do you see that?

A Yes, I do.

Q And that means that if you are successful in litigation against eBay or whomever else for licensing, you all get a cut of the pie, right?

A Yes.

Q And in this instance, based on the Goto.com settlement, Mr. Woolston received $2.1 million to take home, correct?

A Well, that was what we agreed to pay. I don't know that it was actually distributed that way.

Q You don't know if that was distributed?

A Not in that manner I don't think it was.

Q You don't think so?

A But that was our intent certainly at the time of this meeting to do that.

Q So your intent at this meeting was, based on the Goto.com settlement, was to pay you $250,000, pay Mr. Phillips $250,000, and pay Mr. Woolston $2.1 million, correct?

A Correct.

Q And, in fact, other former members of the company, Mr. Bartlam and Mr. Matney, accused Mr. Woolston of fraud and accused you and Mr. Phillips of breaching their fiduciary duties in arriving at these resolutions, correct?

* * * *

[1109] BY MR. RANDALL:

Q At that same meeting—and this is all in June of 2001, right?

A Yes.

Q At that same meeting, and I'm reading from your resolution, "A motion was made to approve Resolution 4 authorizing the president"—that's Mr. Woolston, right?

A Uh-huh.

Q —"to negotiate an engagement with outside counsel for the purpose of beginning enforcement proceedings against eBay for infringement of the company's patents." And that was unanimously approved, correct?

A Correct.

Q Next paragraph down it states, "There was a discussion of the status of the employee unit members who were no longer in the employ of the company. It was agreed that the company's policy will be to consider bonuses only to active employees of the company, and that the company did not contemplate any general distributions to members of the employee unit class." Do you see that?

A Yes.

Q Now, the employee unit class were all those individuals who had worked for MercExchange while MercExchange was trying to development something, but no longer worked for them because of your switching plans, correct?

[1110] A Correct.

Q And those former employees all had ownership interest in stock, right?

A Yes. That would be what was called here the employee unit.

Q Right. And so these former employees who had received stock in the company, this resolution means that you were going to pay them nothing out of that Goto.com settlement, right?

A I think that's correct, yes.

Q And further down it states, "It was determined that it would be in the best interests of the company to attempt to negotiate a repurchase of the employee units held by all terminated employees, and to attempt to maintain an adequate reserve." Do you see that?

A Yes.

Q That means that you weren't—you were going to try at that time to buy out these former employees' stock, right?

A Yeah. There was a provision when they were granted those units for buying out those units.

Q And you wanted to buy them out before you sued eBay, right?

A Well, we wanted to buy them out because they weren't a continuing part of the business. No matter what we did in going forward, they weren't going to be active in the [1111] business. So that's why the provision was granted in the first place.

Q And at that time the valuation of the company, at least as far as these employees knew, was $50,000, right? A I don't know that they knew that at that time. I don't know we knew that. I think that was a different—you might have to go back. I thought that was in October.

Q You were on the board at this time, right?

A I thought you showed me that it was October 2000.

Q I know I showed you that document. I'm asking you about this time. Were you on the board in June of 2000?

A That's correct.

Q I'm sorry, 2001. In June of 2001 you were on the board, right?

A Yes.

Q And the board at that time valued the company at $50,000 as well, correct?

A I don't know that that's correct. If it's in the minutes, then that's what we decided.

Q If I have a document that's in writing, you would agree to it?

A Well, yeah, I guess I would. Sure.

Q Further down it says, "It was further determined that the president should be authorized to negotiate the repurchase of the Class A units and retire members Bartlam and Matney." Do [1112] you see that?

A Yes, I do.

Q And that means that you and Mr. Phillips and Woolston all agreed that you would try to buy out the interests of Bartlam and Matney, right?

A Correct.

Q And they were friends of Mr. Woolston, right?

A I don't know. I didn't know that relationship.

Q You have no idea?

A That they were friends?

Q Yeah.

A Mr. Woolston had granted them their units because they were performing services, I believe, in 1995 and '96 for MercExchange. My understanding is Mr. Bartlam was supposed to have provided financing through his contacts for MercExchange, which he ever did, and Mr. Matney was to complete patent prosecution, which he never completed. That's my understanding. So whether they had a friendship or not, I don't know. But they did not receive units for friendship. They received units supposedly for services, and those services hadn't been performed in several years.

Q At the time of this board meeting in June of 2001, the only board members that were present or that could vote on this deal was you, Mr. Woolston, and Mr. Phillips?

A Right. As members of the board, that's correct, yes.

[1113] Q If you would go to the last page of this document. MR. RANDALL: No further questions of this witness at this time.

THE COURT: Mr. Stillman.

MR. STILLMAN: Just a couple.

REDIRECT EXAMINATION

BY MR. STILLMAN:

Q Mr. May, you were asked some questions about the distribution of fees, director fees to you and to Mr. Phillips and Mr. Woolston. Do you recall those questions?

A Yes, I do.

Q And as I recall, you received $250,000 and Mr. Phillips received $250,000 and Mr. Woolston received $2.5 million; is that right?

A 2—well, that document said 2.1.

Q 2.1. And that was essentially the company's resolution regarding the payout of the Goto.com settlement agreement, was it not?

A Correct.

MR. RANDALL: I'm going to object to leading. I don't mind him answering the questions, but they are leading.

BY MR. STILLMAN:

Q What was that? What was the payment of 250, 250, and 2.1 to Mr. Woolston representing?

A When we made the decision that MercExchange needed to

* * * *

[1115] A At the time that we settled this?

Q Was there a—

A Are you referencing the resolution of the board or when they first parted company?

Q At any time.

A There was a lot of loose ends.

Q. Was there eventually a resolution—

A Yes, there was a resolution.

Q Let me get my question on the record. Was there eventually a resolution of any rights Mr. Bartlam and Mr.

Matney might have regarding their employment status with MercExchange?

A Absolutely. We sat down with them and resolved that, and as far as I know, they are happy now.

MR. STILLMAN: Thank you very much.

RECROSS EXAMINATION

BY MR. RANDALL:

Q The resolution was with respect to a dispute that MercExchange had and its former founders, Bartlam and Matney, about how those Goto.com settlement funds were distributed, correct?

A I think it was broader than that. I think it had to do with dilution of their ownership rights.

Q Dilution of their ownership rights, because they alleged and they accused you and Mr. Woolston and Mr. Phillips of [1116] issuing these shares, among other people, you and Mr. Phillips, correct?

A That's correct.

Q So they were angry that Mr. Woolston had issued shares to you and to Mr. Phillips that would then dilute their interest, right?

A They were—remember, they were no longer active. They hadn't been active for years, and they got their units the-same way we got ours. They got theirs for services.

Q You hadn't contributed any money, though, right?

A -They didn't either.

Q And another reason why this dispute arose was - because they believed that you and Mr. Phillips had breached the fiduciary duties and Mr. Woolston committed fraud in this board meeting in June, in deciding how to split up this money-and giving you three $2.6 million, correct?

MR. STILLMAN: Asked and answered. That was all covered in cross-examination.

THE WITNESS: Well, first of all, I don't—THE COURT: Wait a minute. Wait a minute.

THE WITNESS: Sorry.

THE COURT: I think it was covered in cross.

Objection sustained.

BY MR. RANDALL:

Q When Mr. Stillman asked you about the dispute being [1117] resolved, MercExchange hired lawyers, Bartlam and Matney hired lawyers, and ultimately the whole thing was resolved partly based on the fact that Bartlam and Matney would receive a portion of any recovery against eBay in this case, correct?

A That was one of the elements of it, yes.

Q And you stand to gain a percentage of any recovery against eBay in that case, too?

A Absolutely. That's how MercExchange generates its revenue, by licensing its patents.

MR. RANDALL: No further questions.

THE COURT: Is that it?

MR. STILLMAN: May Mr. May be excused?

THE COURT: He may, yes, sir. Thank you. (Witness excused.)

THE COURT: Next.

MR. STILLMAN: Your Honor, our next witness is by video, a Ms. Inna Vogel, an eBay engineer, and a designated witness on behalf of eBay as to the process used to list items for sale on the eBay Web site.

THE COURT: All right.

MR. STILLMAN: Your Honor, this witness will take about 45 minutes. And I think there is a brief stopping point in the

middle, but I believe we have corrected the problem with respect to this that we talked about earlier.

(The videotaped deposition of Inna Vogel was played

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[1203] in the report, but I think it was '97. So some of, there may have been a period of time when they were in 705, there may have been a period when they weren't in 705. But that's generally the case as to the dates.

With regard to the business method initiative, yes, I set up a business method initiative around the year 2000. March, I believe, of 2000.

Q. And that Business Method Patent Initiative was instituted as a result of criticism that the Patent Office had received, whether you agree with that or not, in handling patents in these, in class 705, correct?

A. There were several things that led us to come up with the Business Method Initiative. In the late '90s there started to be a rise in the number of applications that dealt with the Internet, that dealt with financial services. A commissioned a white paper look back at the history of the office. We had been issuing patent on sort of business methods, like accounting methods or statistical record keeping methods for 150 years. But in the '80s and more importantly into the '90s, particularly with the rise of the Internet, there came to be an increase in the number of applications.

Also, maybe because of the nature of the Internet and folks that were on it, they were new to the patent system and they raised a lot of questions about it, and they [1204] were concerned about what this meant for their work. And so they made these questions fairly publicly known.

Also, as I said, there was—well, actually there was another factor that came into place. There's an appeals court that hears all of the appeals of these cases from the district court

level. And they had issued an opinion which sort of, once and for all, said that software is patentable and business methods were patentable. And there had been some question with that before. Once that happened this increase really started to go up. So because of this increase and because of this sort of public discussion, let's call it, the political aspect of it—I was a political appointee, I had to take care of my politics too—we wanted to make sure we were doing things right. So we implemented the so-called Business Method Initiative. And very successfully.

Q. And part of the reason for that was that the Patent Office had been criticized for its issuance of patents in the 705 class, correct?

A. I'd like to call it public discussion. I think that the criticism was not well-founded. But sometimes you want to make sure you're taking care of business, you know?

Q Okay. A key feature of this Business Method Patent Initiative was that it called for a number of enhancements in the Patent Office application examination [1205] process intended to ensure the quality of patents issuing from class 705, correct?

A. Yes. And in particular, as I said, because the number of applications was rising so rapidly, we needed to bring new examiners in. And we have new examiners, you've got to make sure that they're being overseen in a good way, that the supervise, that there's supervision to make sure that these patents are appropriately issued. And so one key factor in the Business Method Initiative was to have what's called Second Look, or what's called the, second-level review.

Q. And also one of the enhancements other than the second-level review was the mandatory prior art searching which would include non-patent publications, correct?

A. That's actually the mandatory computerized search. Most—that was a little bit of a sleeves-out-of-your-vest. Almost all of the examiners, particularly in this art unit, would use the electronic search tools. We were negotiating

with unions at the time whether they had to use that or not, and we wanted to kind of slip that in, if you will, and wanted to make sure that they did use those electronic tools. They also have the paper tools, the libraries, the search room, all that stuff too.

Q. Well, if everybody was, in fact—everybody in the Patent Office was, in fact, using the computers to [1206] search for prior art, then there would be no reason in the second look policy to include the mandatory requirement to do computer searches, right?

A. It's a longish question. I think the need to get mandatory searching in—and this was a bit of a pilot program or a test case, because a number of the search tools—at that point we had a brand new search system, known as EastWest, and we wanted to make sure the examiners were using it. And the examiner's union resisted it a little bit, so we were kind of using this as a pilot program, I guess I should say.

Q. This second look policy was actually a, the initiative required applications in class 705 to receive a second-level review by a senior examiner before being issued its patent; is that right?

A. Yeah. As I said, because the class had grown so rapidly, the number of applications, we wanted to make sure we had enough eyes looking at these applications. This was in 2000, so this was several years after this rise occurred. Several years after the applications we've been talking about today. But it was important to make sure that we had those looked at carefully. They are done by an examiner that has a title called QAS, which stands for Quality Assurance Specialist, yes.

Q. So the answer to my question is yes?

[1207] A. Yes.

Q. The purpose of this second-level review is to ensure compliance with the mandatory prior art search requirements and to verify the clarity and completeness of, the reason stated for the allowance and to determine whether the scope

of the patent claims that would be issued should be reconsidered, correct?

A. That's generally a good statement of it, yeah.

Q. And the added scrutiny given to these applications in class 705 affected the allowance rate fox patent applications in that technical class, correct?

A. Indeed it did. I think what happened was that again, this is in mid 2000—the allowance rate went even—well, the overall allowance rate in the office is around 67 percent. Two-thirds of applications eventually issue. Eventually issue. The class 705 allowance rate was around 57 percent before the initiative, and afterwards it went down even further.

Q. Well, when you say it went down a little further, after the implementation of the second look policy that we have been discussing, the allowance rate for applications in class 705 went from 57 percent down to 36 percent, right?

A. That's right. And it rose. Within a year it rose to 57 percent, 45 percent.

Q. Excuse me, I'm sorry, I didn't have a question [1208] pending.

A. Yeah.

Q. During the time that you were with the Patent. Office, you're aware that the average examiner spent approximately 18 hours examining a patent application during the time it was before the examiner, correct?

A. That's the average across all technologies, that'-s how much time is spent, right.

Q. And with respect to applications filed in class 705, after the implementation of the second look policy, an examiner typically spent 31 hours examining the application; is that right?

A. No, that's not correct.

Q. With respect to—

A. Maybe to clarify it for" you, the second-look had no impact on that examination time. That's the time that the—there's an allocation system in the office where there's a very

careful review of classifications, and one classification will get this amount of time; another classification will get that amount-of time. It's also the function of the experience level of examiners.' The more sophisticated technologies, the more challenging technologies get more time. It's not a matter of the second level of review. My understanding is that they had around 31 to 35 hours. As much as. I think it's the highest in [1209] the office in class 705 both before and after the Business Method Initiative was implemented.

Q. One of the conclusions that you've drawn from the statistics that we just went through is that those statistics are reflective of an enhanced level of quality of the patents that have issued from class 705 since the March 2000 second look policy was initiated, correct?

A. Hm-hmm.

Q. Is that a yes?

A. Yes, it is.

Q. Now, the '265 patent—strike that.

The 265 patent issued before the Patent Office adopted business method, this second look policy, correct?

A. Well, that's a good question. One of them did indeed. I don't remember which one had the earlier date. Maybe you can help me out. One of them was issued after the second-level review—the Business Method Initiative went into effect.

Q. The '265 patent issued December of '98. I could give you a copy of that if that refreshes your recollection about—

A. Yes. That would be fine. That would be before the March 2000 date. It's actually March 31st, 2000 when the Business Method Initiative was implemented.

Q. So even though the '265 patent was examined in the [1210] 705 class, it did not receive the benefit of this added scrutiny to ensure the added level of quality that this second policy implemented, right? Second-look policy implemented?

A. As I said, the second-look policy had several goals. One was to make sure that new-examiners who were re-

freshed to the group were getting, your being scrutinized carefully enough. I don't know whether this was before an experienced examiner or a brand new examiner or not. It did not go through the Business Method Initiative. It didn't have the second-level review, that's correct.

Q. And with respect—

A. We have another quality control process in the office. It may have passed through- that, I don't know.

Q. With respect to the '176 patent,' you're not aware of any evidence in the file history that it ever went through the second-level review, correct?

A. Is that the earlier date that we're talking about?

Q. This is the second patent. The '176 patent.

A. Let me take a look at it to make sure I'm clear on it. Hold on just a second.

Could you ask your question again? I'm sorry.

Q. Sure. You're not aware-of any evidence in the file history that the '176 patent ever went through the second-level review, correct?

[1211] A. There was, we made an attempt to make sure that every patent application that was pending on March 31st of 2000, as this one was, was subjected to the second-level review or subjected to the Business Method Initiative. I reviewed the file wrapper and I couldn't tell whether it was or wasn't. The corps made every effort, the patent examining corps made every effort to bring it all in. I can't tell you whether it did or didn't. Probably doesn't matter much, this is a . . .

Q. The question simply was you're not aware of—

A. That's correct.

Q. —anything in the file history that indicates to you that the '176 patent went through the second-look review, correct?

A. That's correct.

Q. Are you aware of the statistics that indicate that nearly half, actually 46 percent of the patents that are litigated to final judgment are invalidated?

A. Not particularly aware of that statistic. I think generally I am. I think that's generally a function of a lot of different things. Usually only fight about the ones that are commercially important.

Q. But that's not inconsistent with your view of the stats, right?

A. It's not.

[1290] A $250 an hour.

Q And you reviewed the Markman order in this case, correct?

A Yes, I did.

Q And you agree with everything that's contained in it, correct?

A That's what the court has decided, yes.

Q Well, I'm just asking.

A I can agree with everything that's in there.

Q Thank you. You mentioned that the end of 1994, on the Internet buyers and sellers didn't trust each other. Isn't that what you said?

A I said that characteristic in the 1994 time frame is that there was certainly concern about security and trust using the Internet between buyers and sellers, yes.

Q All right. Now, this just wasn't your opinion, right? This was a prevailing view at the time, that buyers and sellers wouldn't trust each other in buying and selling goods on the Internet, correct?

A I think that's fair to say, that there was certainly significant security concerns, yes.

Q And also the prevailing view in early 1995 was that buyers and sellers would not complete transactions among themselves on the Internet, correct?

A I think that's fair, yes.

Q And so if you were going to start a business in early

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[1292] Q Let's just say the—

A The '265?

Q The '265 and the '176 patents have the exact same detail description of the invention, right?

A Right.

Q Okay. There is just a slight pagination difference by a few lines, right?

A I believe that's right, yes.

Q Okay. So that's the patent I'm talking about. We'll call it '265 on that.

A Okay.

Q You have read that, right?

A Yes.

Q And what did Mr. Woolston say his trusted network was in his patent?

A I'm sorry?

Q What did Mr. Woolston say his trusted network was?

A Well, the patent doesn't describe just a single invention. It describes several things.

Q Well, you have testified what you think a trusted network is. I'm asking you what Mr. Woolston said was a trusted network in his patent?

A He talked about a number of ways that this invention could be implemented, and certainly there are comments throughout the specification that talk to elements of the [1293] developing trust. So would you like me to talk more about those?

Q I'd like you to answer my question. What did Mr. Woolston say his trusted network was in his patent?

A He talked about a number of elements. So I'm happy to try and build those elements out, okay?

Q Just answer my question the best you can. That's all I'm asking.

A Okay. The trusted network was one in which there was accurate information and posting of goods and the description of those goods. A trusted network was one in which both market maker computers, consignment nodes,

individual user, participant terminals could share information the posting of goods, the bidding of goods, the ability to find information and categories with a network that was trusted for several reasons. One is that the information was accurate; that there were players on this system who would build reputation; that there were elements that had security and authentication so that players knew that the people who were playing on this system were bona fide. There were opportunities for players on the system to provide verification and authentication of goods. There was a description of the compilation of historical information to providing that as a trusted source [1294] of information about where the goods were and what the prices were historically for those goods. There was information about enforcement and policing the network. In fact, I think we seen several of those elements of both agreeing to be bound by appropriate actions and laws that we saw the—

THE COURT: Doctor, would you move your mike a little closer?

THE WITNESS: Sorry. Thank you. That we had enforcement capabilities, that people would be policed, that we could take bad actors off of the system. We see the technical issues of having identifiers, user IDs, passwords, authentication routines so we knew who the users—that they were the appropriate users. And had also these intermediaries of providing both information, in some cases even escrowing through a trusted agent, and handling the transaction. So I think we see all of those elements in the '265.

BY MR. RANDALL:

Q Before you came here to court today and testified to this jury about what you thought a trusted network was, you read Mr. Woolston's patent to find out what he thought a trusted network was, right?

A Yes.

Q And you took that into consideration, right?

A Yes.

Q And you also read his business plan about what he says a

* * * *

[1296] Q Okay. And what he described in his patent for this trusted network was a consignment node operator who would take physical possession of the goods that he would post on the network, right?

A No, I don't think that's correct. I think that's one of the instantiations, but I don't think that's what's described in the patent solely.

Q Did Mr. Woolston describe in his patent that this consignment node user would take physical possession of the goods, yes or no?

A There is a description in the specifications that suggest this is one way that the system could operate, yes.

Q Does it suggest it or does it actually say it?

A It suggests that it's one of four, at least, different ways that this could operate.

Q And Mr. Woolston describes in his '265 patent that only this trusted intermediary, this vetted bailee or franchisee would be allowed to put the goods on the network, right, post them to the network?

A No, that's not correct either, I don't believe.

Q He doesn't describe that in his patent?

A He describes that as one possibility, but he also describes the opportunity to post through an individual—having individuals post directly, not always through this consignment node.

[1297] Q Does Mr. Woolston in his patent describe the process by which this trusted intermediary completes this transaction between buyers and sellers?

A That once the agreement is made that there is a sale, if you will, completing the transaction piece or from the beginning?

Q Right.

A Yeah, he does describe—

Q And he describes—I'm sorry.

A —ways that in fact this can be completed, right.

Q And he describes it in his patent as a finality of transaction, right?

A I think he certainly uses that word as a possibility, right.

Q And what Mr. Woolston describes in his patent as the finality of transactions based on what he describes this trusted network to do, right?

A That one of the potential ways the trust is built here is, in fact, that it can get to this finality of transaction, yes.

Q Does Mr. Woolston describe in his patent that this consignment node or store has the participant's credit card numbers, and that when a buyer says they want to buy something, that Mr. Woolston's trusted network automatically charges that buyer for the good and transfers ownership of [1298] that good, and then at least gives the buyer the option whether to keep the good at the store or ship it to the buyer?

A I'm sorry. I have lost the process. I'm sorry.

Q Does Mr. Woolston describe in his patent how a trusted network would automatically charge a buyer for a good when the buyer says they want to buy it?

A I don't know. I'm happy to look at the patent to make sure. I'm just not sure.

Q Okay. Does Mr. Woolston describe his trusted network in his patent as automatically transferring ownership of the good when the system has charged that buyer's credit card?

A It is one of the ways that he describes having this happen, yes.

Q You mentioned in your testimony that a trusted network needed to have a set of agreements to set the expectations, right?

A I said that certainly agreement is one of the elements that could be in place for a trusted network, yes.

Q It may or may not?

A Well, I think the question of developing trust in a network I think is a difficult one to get your arms around, that there are different elements perhaps that build trust. But certainly the statement of agreement, the statement of expectations on behavior is an important component for building trust.

* * * *

[1300] A Well, I think—remember, there are individuals that can play within this trusted network. Now, are they individually trusted networks? I don't think they are individually trusted networks. But the network itself is trusted because we have players that are—have agreed to some standards of conduct, that understand that there is some enforceability of those standards, that they have anticipated that there is some intermediary activity, and that there is some technical architecture that suggests that there is a level of security.

Q Well, can you articulate just a set of requirements that are required to be a trusted network within Mr. Woolston's invention?

A I guess my hesitancy here is I'm not sure that a network within the larger network or is it what it takes to be a consignment node within a network or —

Q Sir, you gave an opinion to this jury that eBay is a trusted network within the meaning of Mr. Woolston's patent, did you not?

A I did.

Q I'm asking you can you articulate a set of requirements so that this jury can understand whether someone is a trusted network or someone is not a trusted network? Can you articulate that for us?

A I don't think that the issue is cut and dry. I think it is a situation where you have got multiple pieces to the [1301] invention in the '265, '176 patents. So I think what you are

asking me to do is identify a single instantiation.

Q You can answer the question any way you like.

A Okay. That I don't believe there is a single instantiation, but I believe that trust has typically some of these elements that I have talked about before; that there is information provision; that there is agreement about some common standards; that there are activities undertaken of the network to police it, if you will, to provide some enforcement activity for people who are not abiding by the rules; that the trusted network has to have some degree of technical capability that make it secure, that make it responsive, if you will, to folks within that; and that it can provide intermediation of the variety of processes. In an electronic market context, that typically is a commercial transaction so it might provide the ability to pay through a trusted intermediary, to provide escrows, to provide authentication.

I believe much of what I talked about in the movie presentation are really the kind of things that we also see in the '265 patent that describes the elements that build this trusted network.

Q Mr. Woolston did not invent the concept of trust between a buyer and seller, right?

A He did not.

Q Mr. Woolston did not invent networks, right?

* * * *

[1353] fact, all of the participants in the network had used those key elements, that it would have made the database consistent across the participants in the network.

Q. You testified on your direct examination about your understanding of eBay, correct?

A. In general terms, yes.

Q. All right. And you've studied eBay for some time, correct?

A. Yes.

Q. About a year ago, after studying eBay, you made a number of observations in a declaration that you filed in April 25, 2002, correct?

A. Probably, yes.

Q. You observed in that—based on your study of eBay, you observed that in January of 1998 Media Metrix, the leading web audience measurement company, announced that eBay had become one of the top five most-visited shopping sites on the entire Internet with nearly 1 million unique visitors each month, and the only online auction site to make the top five, correct?

A. I believe that's one of the paragraphs, yes.

Q. And that was a true statement, correct?

A. As I understand it, yes.

Q. You also observed that in 1999, eBay, won the Tenagra Award for Internet marketing excellence in the [1354] category of the most successful Internet business, model in, connection with eBay's use of the Internet to pioneer a business model that provided for the efficient, one-on-one" trading in an auction format, correct?

A. I think that's quoting the Tenagra, yes.

Q. That's a true statement, right?

A. From Tenagrau, yes.

Q. You also concluded that in 1999, Red Herring Magazine, one of the leading publications in the Internet industry, named eBay to its list of the top 100 companies for electronic economy, correct?

A. I think that's correct, yes.

Q. That's a true statement, right?

A. I believe so.

Q. Are you also concluded, based on your review and study of eBay, that in April 2000, eBay received an e-business award from MIT's Sloan School as one of seven leading-edge e-commerce organizations. EBay was awarded the Global Reach Award for successfully leveraging the Internet as a channel for extending global reach, correct?

A. I believe that's that paragraph, yes.

Q. And that's a true statement, correct?

A. As I understand it, yes.

Q. You also observed that on June 16, 2000, eBay announced its receipt of one of the 2000 Computer World [1355] Smithsonian Awards in the business and related services category. In addition to receiving the award materials relating to eBay—strike that. Materials related to eBay were to be added to the permanent research collection at the Smithsonian's National Museum of American History, correct?

A. Yes, I believe that is correct.

Q. That's a true statement, correct?

A. As I understand it, yes.

Q. You also concluded that the auctions listed on eBay in 1996 were 289,000. By the end—strike that.

By the second quarter of '99, they had grown to 29,400,000, correct?

A. That's my understanding.

Q. That's a true statement, right?

A. As far as I can tell, yes.

Q. Furthermore, you concluded by December of 1998, eBay ranked second to Yahoo! in total monthly usage hours, according to Media Metrix, and its audience reach had increased 200 percent between April '98 and February '99, correct?

A. I believe that's right, yes.

Q. That's a true statement, right?

A. As far as I understand it.

Q. And in studying eBay for this case, including the materials and information I've just read, you reached the [1356] conclusion that eBay has enjoyed significant commercial success, including industry recognition and awards, as of June 2000, correct?

A. Yes.

Q. And all of that success that eBay achieved was achieved prior to any claim that eBay infringed any patent in this case, right?

A. I believe that-that timing is correct, yes.

Q. You studied at least the applications as they relate to the patents in suit in this case, correct?

A. I'm sorry; which applications?

Q. '265 patent—I'm sorry, '265 file history and the '176 file history, correct?

A. This is the application leading up to the granting of the patent?

Q. That's right.

A. Yes. I'm sorry. Application has another meaning as well. I just wanted to make sure I got the right one.

Q. Okay.

A. Thanks.

Q. So you're aware that Mr. Woolston added Figures 12 and 13 to his November application after filing his original application in April of '95, correct?

A. I couldn't tell you that for certain.

Q. You don't know?

[1374] A good, yes.

Q. That's not my question. Is it your testimony that eBay actually assures a good's bona fide availability and legal title?

A. Well, through the agreement I think they are attempting to do that, yes.

Q. Do they, in fact, sir, in your opinion. And if so, I'm going to ask you to point me to the exact language of that.

A. Do they?

Q. Does eBay, in fact, assure a good's bona fide availability and legal title? Yes or no?

A. I don't believe they have to do that, no.

Q. And they do not, in fact, do they?

A. I don't recall that, no. On that site.

Q. Let's look at another passage. I'll direct your attention to Column 13, Lines 4 through 37. I'm sorry. It is Column 13,

lines 13 through, I don't know, 16. Actually through 20. It states there, It is understood that the trusted posting of goods on a market node is a value-added feature. Do you see that?

A. Yes.

Q. Do you understand Mr. Woolston to mean there that this trusted, that his trusted network restricts the posting

* * * *

[1404] Q. Doesn't the buyer in both eBay and Half.com's system have the freedom to either pay whenever they want to?

A. Yes, I think that's true. Yes.

Q. And also in eBay and Half.com's system, the buyer always decides how much they are going to pay, correct?

A. They know how much they have bid. Or they may not know, for example, what the shipping costs would be, but they are the ones who are deciding how much they are willing to pay for the basic price of the good, yes.

Q. Neither eBay nor Half.com promises bidders that the goods will be as advertised, correct?

A. That's correct.

Q. And in fact, the buyer must trust the seller on that issue, right?

A. The buyer must trust the seller on that issue, yes.

Q. And neither eBay nor Half.com promises that the goods, in fact, exist, and that the goods will, in fact, be delivered, correct?

A. Well, I think given the agreement, the user agreement, the suggestion is that they have expectations But do they assure that or insure that? Not directly.

Q. And, in fact, in the eBay and Half.com system, the buyer has to trust that the seller—strike that. In eBay and Half.com's systems, the buyer has to

* * * *

[1407] everything in it; is that correct?

A. That I have agreed to it, and yes, that I agree with everything.

Q. Do you recall doing a transaction on eBay with Dr. Weaver about a baseball card?

A. No, I don't.

Q. How about a pen?

A. About a pen, yes, I do recall that.

Q. And during that transaction, eBay did not track who actually owned that pen, did they?

A. I don't believe they did.

Q. And in fact, eBay never knew who actually owned that pen during that transaction, right?

A. I'm not aware that they did, no.

Q. Do you have an understanding as to what a person-to-person system is, sir?

A. I do have an idea about what a person-to-person system is.

Q. What is a person-to-person system?

A. Well, a person-to-person system is one where there is direct connections between the two individuals to either share information or transact business. Where, for instance, a buyer and seller have to communicate directly with each other regarding aspects of the transaction, correct?

* * * *

[1412] earlier, it states, As the leading person-to-person trading site, eBay draws buyers with its extensive content. Do you see that?

A. Yes, I do.

4. So, in fact, you had heard of eBay as a person-to-person site, right?

A. That, that certainly is here, yes, it is. You'll see in the declaration that I had used one-to-one. I obviously didn't read as carefully down as I might have, so...

Q So also in the same declaration you submitted, Exhibit 7, correct, which was the AScribe newswire—

A. Okay.

Q. —article, correct?

A. I believe so.

MR. RANDALL: Go to exhibit 7 of that.

MR. STILLMAN: Your Honor, these exhibits were objected to by eBay at pretrial, and so now can we admit them?

THE COURT: They are not admitting anything. He's talking about his declaration. He asked him a question about person-to-person and he said he never heard of it as person-to-person, and then he's asking a question about that.

MR. STILLMAN: But it seems to me that if the

* * * *

[1414] person-to-person. Does that satisfy you, Mr. Stillman?

MR. STILLMAN: Yes, sir. Thank you.

THE COURT: Okay.

All right. Blow that up enough so that nothing else can be seen, or hardly anything else can be seen. There you go.

BY MR. RANDALL: Dr. Palmer, do you recall submitting an article to the Court in your declaration which stated, among other things, eBay is the leading person-to-person trading site?

A. Yes, I do see that now, yes.

Q. Okay.

THE COURT: Take it off.

BY MR. RANDALL:

Q. You also supplied to the Court in that same declaration as Exhibit 13 a Harvard Business School document, correct?

A. I believe so. A case, I think. Yes.

Q. And that states that eBay was the world's largest and most popular person-to-person trading community, right?

A. Yes, I see that.

THE COURT: There's no need—he's admitted to it. There's no need to put it up there. Take it off.

BY MR. RANDALL:

[1415] Q. And further in that same article that you provided and relied upon for your declaration, it stated eBay pioneered online person-to-person trading, correct?

A. My guess is it probably did.

THE COURT: You guess what, sir?

THE WITNESS: Well, I guess it probably did. I don't see it in front of me now.

THE COURT: You can show it to him, just don't show it to the jury.

MR. RANDALL: Leave it off that screen and show him that second portion of the Harvard Business School document, the portion that says eBay pioneered online person-to-person trading.

THE WITNESS: Yes, I see it. Thank you.

BY MR. RANDALL:

Q. So in fact you did supply that document to the Court under penalty of perjury with a declaration stating that the information contained in that document was true and correct, correct?

A. Yes, that's correct.

Q. And so does that, sir, refresh your recollection that, in fact, you supplied—strike that. You read articles, you provided them to the Court, you stated under penalty of perjury that the information contained in those articles was true and correct and they [1416] included a number of references to eBay being a person-to-person trading site, right?

A. Yes, that's correct.

Q. And so again, if eBay is a person-to-person trading site, you would agree that neither eBay nor Half.com infringe the claims of the '265 patent, right?

A. If all they're doing is person-to-person trading, then I would agree.

MR. RANDALL: All right. Thank you. I have no further questions, Your Honor.

THE COURT: I suspect you're going to spend a little time with him?

MR. STILLMAN: I promise I will try to be very brief, but I know everybody's tired. It's really your call.

THE COURT: Well, it's about time to take a break. I hate for you to have to come back, but you're not that far. So at this time just don't discuss your testimony with anyone. We'll see you back tomorrow at 10 o'clock.

(Jury excused for evening recess.)

(Whereupon, proceedings adjourned at 5:12 p.m.)

* * * *

[1457] THE COURT: Okay.

MR. RANDALL: And this was the document that he testified at his deposition that he and Mr. Palmer showed the patent examiner, so I'm refreshing this witness's recollection.

THE COURT: So ask him whether he showed it to the patent examiner.

MR. RANDALL: That's right.

THE COURT: Not Mr. Phillips, but Mr. Palmer.

MR. RANDALL: That's right.

THE COURT: Dr. Palmer.

MR. RANDALL: That's right.

THE COURT: Okay.

THE WITNESS: Is there any way I can get little bigger? Thank you. Great.

BY MR. RANDALL:

Q. And while you're looking at that, Dr. Palmer—

A. Yes. Okay. Thank you.

Q. You recall, at the time of this meeting with Mr. Palmer and Demetra Smith regarding the '051 application, that the Patent Office had rejected all of Mr. Woolston's claims based on three references, Save The Earth, Computer Museum and Army Knives to Gold Coins, and at that time you and Mr. Phillips were there to try to persuade Ms. Smith to actually issue the claims, correct?

[1458] A. I think that pretty well captures what the discussion was about, yes.

Q. And you showed Ms. Smith this Phillips exhibit 28 describing what you thought was a single-entity auction, correct?

A. You know, this doesn't look terribly familiar to me, but if John Phillips says this is what we had taken, that's okay. I would accept that.

Q. And the second page, and that is Bates stamped number ME0056356, in that, that is the document that you also provided to Ms. Demetra Smith, the examiner of the '051 application wherein you and Mr. Phillips represented to her that Mr. Woolston's auction system was a person-to-person auction system and you provided and discussed that chart, correct?

A. No, I'm sorry, that doesn't look familiar to me. But again, if this is what Mr. Phillips had in his declaration, I don't recall having diagramatic support of that discussion.

Q. Well if, in fact, sir, that Mr. Phillips does, in fact, testify that these were your ideas, that you came up with them, and that he and you met with Ms. Demetra Smith and discussed this with her, does that refresh your recollection?

A. It doesn't. It was a long time ago. It doesn't [1459] refresh my mind about that meeting with Demetra Smith and her supervisor.

Q. Do you agree that the advantages of a person-to-person auction system include auction facilitator incur much less overhead and risk, need not receive, hold or verify items; rather, merely provide auction mechanism and other mechanisms to protect its interests. Do you agree with that?

A. Well, if there's a person-to-person auction system, again, my definition of person-to-person is that there's the direct individual going to the direct individual. If it's facilitated in some way so that there is some person-to-person facilitation, that intermediation and facilitation, one of the things that facilitator and intermediator does is, in fact, reduce risk, because they are trying to make it a more trusted environment. So yeah, I would agree that if there is an auction intermediary that makes this happens, one of the things they are doing is reducing risk.

Q. Let me ask you, do you agree that the second page of Mr. Phillips' deposition Bates stamp number ME0056356, depicts a person-to-person auction system as you understand it, sir?

A. Can you give it to me again, please?

I think this diagram does a good job of [1460] identifying, yes, an intermediated auction system where the people, a person was a buyer, another person was a seller, yes.

Q. That wasn't precisely my question.

A. Okay. Sorry.

Q. Does what is depicted on the second page of Phillip's Exhibit 28, specifically Bates stamp number ME0056356, depict, in your opinion, a person-to-person auction system? Yes or no?

A. Well, the person-to-person auction system I haven't defined. I defined person-to-person transactions and systems. I think this diagram does capture what an intermediated person-to-person auction system would be, yes.

Q. And is, in fact, eBay a person-to-person system pursuant to your understanding of the term?

A. No. My understanding of the term, which I gave earlier today, was that it would be a direct connection between the buyers and the sellers. I believe it's an intermediated auction system, but I don't believe it's a direct person-to-person auction system.

Q. Is what is depicted here in Page 2 of Phillip's Exhibit 28, do you believe that definition of a person-to-person system is consistent with the definition of a person-to-person system that you've provided to the jury in this case?

[1461] A. I think it is a, has the facilitator in between the people, and so my basic definition is that it has to be a person-to-person, non-intermediated. But what this does define is an auction system where there is an auction intermediary that allows person-to-person transactions to occur.

Q. And your opinion, a person-to-person system that has a facilitating platform in between the buyer and seller is still nonetheless a person-to-person system, correct?

A. Well, I think there is this extension of person-to-person where there is facilitation, yes.

Q. So your answer to my question is yes?

A. But the facilitator is -- my answer to your question is there is a facilitated person-to-person auction capability.

Q. Like eBay, right?

A. That's part of what eBay provides, yes.

MR. RANDALL: No further questions.

THE COURT: Short? That's what you're holding up? Short?

MR. STILLMAN: Very short.

FURTHER REDIRECT EXAMINATION

BY MR. STILLMAN:

Q. Mr. Randall pointed you to specific portions of the specifications. Let me ask you to look again at Column

* * * *

[1610] THE COURT: You were placed under oath on Friday and, of course, you are still under oath.

THE WITNESS: Thank you. Ms. Albert.

DIRECT EXAMINATION

BY MS. ALBERT: (Cont'd)

Q Good morning, Dr. Frieder.

A Good morning.

Q Based upon your computer science expertise, are you aware of measures that can be implemented by electronic markets and electronic auctions to enhance the trustworthiness of their systems?

A Yes, I am.

Q And what are some of the measures that can be used to help implement a trusted network or system?

A Well, there are two types. In order for me to explain what I mean by there are two types, first of all, I have to explain what the word trust is. The dictionary definition of trust is basically to place confidence. Confidence is a feeling of reliance. So when you are talking about a trusted system, what you are talking about there are technical means of doing it, and then there are belief means of doing it. What I mean by technical means, you can have security communications; you can use encryption; you can have logins with protection; you can have a monitoring, for example, intrusion detection, make sure no one comes to you

* * * *

[1680] Q Do you think the way—strike that. In reaching your conclusion that you believe eBay is a trusted network or system, do you believe that the way in which payment is received by a seller, do you think that's part of the trusted system?

A Could you repeat the beginning?

Q Is the way in which payment is processed—

A No. The whole thing that you started, the whole phrasing of your question.

Q I'll ask another one. Do you believe that the process—

A You don't want the answer to the previous one?

Q Sir, I'm going to ask a different question.

A Okay.

Q Do you believe that the process by which eBay may handle credit cards, for example, do you believe that that is part of this trusted network or system?

A I understood that as a computer scientist and as necessary for my understanding of the '176, that as long as it provided some secure way of handling the purchasing and the selling and providing the secure way, obviously, for the browsing and searching that -- and it had all the other necessary measures, that this would be what was necessary for an electronic auction. I did not look into the specific on how it handles credit cards except for the assumption, of course, and except [1681] the understanding that your need to be secure. You need to have some kind of—you don't want to give your credit card in a secure system without having some guarantees that it's not going to be distributed all over the place and it's not going to be sent all over, and it's you, etc., etc. Some kind of security measures.

Q By the way, how would someone of ordinary skill in the art know what is a trusted network within Mr. Woolston's patent and what is not a trusted network within the meaning of his patent?

A Trust is—by the way, trust is—and that question is very difficult to answer because trust is not an absolute. Trust

is a goal. As I said, it's in order to place confidence. So if you get the feeling that you are secure, you can trust it, then it is a question of trust. And there are many measures that demonstrate to increase your comfort level of trust. And if you have these things, then you will probably be trusted.

Q Do you have anything further to add to that?

A No. Based on—so would one of ordinary skill in the art that requires a little higher degree of trust and comfort, would that standard for what is and what is not a trusted network within the meaning of the patent be different from another person of ordinary skill in the art that's very [1682] trusting and he has a low threshold of comfort?

A Look, I work in many places. I do consulting for lots of organizations where trust is of utmost importance for the national security of this country. Obviously, different levels requires—different items require difficult levels of trust. The level here is to support confidence that you would buy, sell, search or browse items in the electronic market in a secure environment or a trusted environment, which is obviously different than if you are trying to deal with some national security secrets. But it's a notion that the—as it says for this application, the trust is to place confidence. You are willing to buy, sell, search, browse online if you are talking about electronic market or, as necessary, for electronic auctions as well. Does that answer your question?

Q No.

A Then repeat it.

Q Well, are there different—strike that. If you line up 10 people of ordinary skill in the art, 10 of them, given that all of them may have different levels of comfort and trust that they need, would you agree that each one of them has a different line to draw about what is and what is not a trusted network within the definition that you are applying to Mr. Woolston's patent?

A Well, generally, there is certain fundamental things that [1683] have to be there. And beyond those fundamentals

such as it has to have some Web protecting the key assets, it has to have some kind of a way of identifying yourself to make sure it is, like logins and passwords. You have to be able to guarantee that you are not going to be able to—that your stuff is not going to be circulated all over the place, some kind of privacy, some kind of assurances. And once you get to that minimal level—and yes, sure, there is going to be a difference that varies. But you have—in order to be trusted I think in a common person, one of ordinary skill in the art as necessary for this patent will understand to a certain level of what is a minimal basis. Did I answer your question?

Q I don't think you did, but I think you tried. Let me ask you—

A Then please rephrase it.

Q —do you understand how the trusted network in Mr. Woolston's patent describes processing a payment?

A No. I didn't study that in great detail. It was not necessary. I didn't study it at all. It was not necessary for—in my understanding of the claims. I understand you have to have a trusted means of processing the payment because that has to have a means to support trusted buying, selling, searching, and browsing online, a trusted environment. So I understand the level of trust. But I didn't—as long as [1684] there is some trusted way of processing payment to buy, then it was fine with me.

Q Well, did you just testify that you believe that Mr. Woolston's patent, and specifically, a trusted network, requires a trusted means for processing payment, but you didn't bother to understand that concept in Mr. Woolston's patent?

A You asked me—I needed to decide about eBay and Half.com infringing both—Half.com both directly and an inducement and eBay induced, and I had to understand what they supported for trust, and the places I also am looking for to demonstrate that they are infringing on these claims, and therefore I looked. And their own literature said, they talk

about trusted means of processing. So I just took it as necessary.

MR. RANDALL: Can you pull up number 17? I just want to pull up a couple of slides from the patent. I'm looking for number 17 which is a different -- do you happen to have that? I'll direct you to the patent.

BY MR. RANDALL:

Q Let's go to the '176 patent, Column 4, line 66 and 67.

A The last two lines?

Q Yeah. This is under the section called, The sale. Do you see that?

A Uh-huh.

* * * *

[1923] And I understand that this case is complex. understand that it's hard fought. But, boy, you all have known about most of these issues for a long, long time, and it just—again, I'm not going to keep repeating myself because if I do, I don't want to get upset this early in the morning. Frankly, I'm trying my best to keep my cool. I think I have kept my cool as best as I can. People who know me know that I don't blow up in court. But it can happen, I can tell you. There is only so much that one person can take.

And I understand that you all are under terrible pressures, and I understand that; but you all have to understand also that the court is under terrible pressures because you all are out there to do your job. And let's face it, you all are out there to make sure that you don't make any mistakes, but you would like to have a record where you can appear before an appellate court and at least say that maybe the judge made an error. And I certainly don't want to make an error. But I can't say that I haven't already and I certainly don't want to in the future.

You know, I started looking through—spent most of the weekend looking through the jury instructions, and I have to

say this. Whoever—I'm not going to point—but whoever followed, for instance, the model instructions, the Federal Circuit model instructions, you start reading them carefully and there are little words changed here and there. In some [1924] cases there is more than just little words changed here and there. And when I practiced law, and since I have been a judge, anytime someone has ever referenced a model jury instruction and anytime there has ever been a change to a model jury instruction, no matter how minute the change is, they would put in there "as modified." I didn't see any "as modified" in there. I saw model jury instructions with a lot of other case cites.

So I'm kind of—at first I was sort of assuming that, okay, the model jury instructions were followed. And then I started reading them, and then I started reading the objections to the jury instructions and I find, no, they weren't followed, they were modified. I think it's absolutely improper to refer to an instruction as a model jury instruction if it's going to be changed in any way without saying it's modified to give—and I think you all know what I'm talking about.

MR. STILLMAN: I know exactly what you are talking about, and I won't say that our side wasn't guilty of it.

THE COURT: I will. I will.

MR. STILLMAN: I will tell you that I told my team that they should not modify, and I think they would confirm that one word of the model instruction. I heard after we filed them that they did.

THE COURT: They certainly did.

[1925] MR. STILLMAN: And I chastised them for doing so. I will tell you that I don't think we modified them any—we are any more guilty of that than the other side was.

THE COURT: The other side didn't, rightly or wrongly, didn't rely on the model instructions as much as your side

did. But I don't think there is one in there—and I could be wrong. Of the dozens and dozens of jury instructions, I don't think there is one in there where the model jury instructions isn't cited as—at the bottom of the instruction where it says "as modified."

MR. STILLMAN: And if we did that

THE COURT: You did do it.

MR. STILLMAN: We were wrong. I mean, unfortunately, I have not been able to do everything in this case, and I haven't had an opportunity to look at our instructions verbatim to compare them with the models. But I will represent to the court that I will do that tonight. And I will also represent to the court—

THE COURT: It's going to be harder than you think, Mr. Stillman, I can tell you that.

MR. STILLMAN: I know. I know. But I will also represent to the court that if we submitted to you a model jury instruction and did not qualify it as being modified, that is wrong, and we should not have done it. I apologize to the court, and I will make sure that it's scrubbed clean.

* * * *

[1939] Merrill Lynch or people like that, have experts within their companies that watch a certain market or a certain field, and these are people—these are objective third parties who evaluate certain things, and evaluate stocks and attractiveness of stocks for their investors. And so I found those to be very helpful in my attempt to conduct an objective analysis of the subject.

So many, many agreements. API agreements, eBay's deep linking agreement, all of the agreements that MercExchange has entered into. So it's been quite a large volume of documents.

Q Now, how does one skilled in the art actually go about objectively determining a reasonable royalty rate?

A Well, I have attempted when I have had responsibilities, such as I have in this case, to utilize as nearly as possible the methods and system that I use in my real world experience, the experience I had when I was negotiating licenses on behalf of my company, both of the company's patents and technology and technology and patents that we were acquiring from others, and I found that these licensing skills and strategies and techniques are very transferable industry-to-industry. But in order to transfer them accurately, you have to understand the industry that you are looking at.

And so I looked at the Internet commerce, e-commerce industry to see whether there were any unique characteristics [1940] that might affect the negotiation of the royalty. I particularly look at agreements, whether or not they were previous agreements in the industry. I looked at the parties' positions at the time of the hypothetical negotiation, which I mentioned yesterday, hypothetical negotiation. What positions would they have undertaken, what was their leverage or bargaining position. And this is very important.

It's sort of like when you go to buy an automobile. If you are buying a plain vanilla Chevrolet in which the dealer has two or three hundred of them sitting in his back lot, you probably have quite a lot of leverage. The dealer wants to sell those because he has inventory costs. But if you are buying a—what's popular now out in California is one of these hybred cars that has a gasoline engine that also charges a battery, and about 60 percent of the time the car runs off the battery rather than the gasoline. And there is a three-month waiting list or a six-month waiting list for those. The dealer probably has the leverage. So it's important to look at the leverage and what the leverage would be of the parties at the negotiation.

But after having said all of that, I then look at the conditions that the famous Georgia-Pacific case imposes; that is, the factors that parties would consider in negotiating a reasonable royalty. And having in mind my personal experience and the bargaining positions of the [1941] parties and the characteristics of the industry, I then look at the hypothetical negotiation factors from the Georgia-Pacific case.

Q I think you have prepared a demonstrative exhibit to illustrate those exhibits.

MR. STILLMAN: Jeff, could we look at 1378?

BY MR. STILLMAN:

Q What are we looking at, Mr. Evans?

A What this is, is a chart that—it is pretty self-explanatory at the top: Analysis of the Georgia-Pacific factors for the hypothetical negotiation of a reasonable royalty for infringement of the '265 and '176 patents. And you will recall yesterday I said that the successful patentee in a patent infringement case is entitled to no less than a reasonable royalty, and these factors are factors that are considered in a determination of a reasonable royalty.

On the left-hand side, the column is the factor itself copied from the Georgia-Pacific case, and on the right-hand side is my analysis of the factor and how I believe the factor would affect the negotiation of the royalty.

Q Now, focusing on the first factor for a moment, are you required to examine any royalties received by the patentee for the licensing of the patents-in-suit proving or tending to prove an established royalty?

A Yes, I am. May I, Your Honor? I can see the chart [1942] better if I stand.

THE COURT: That's fine.

THE WITNESS: Thank you. Yes. It's important to look at whether or not the patentee, that is, MercExchange, has

received royalties for licensing of the '176 and '265 patents, the patents-in-suit, and whether or not that licensing, if there was licensing, would prove or tend to prove an established royalty. And there are some courts that said that if there is an established royalty, that you stop there. And that's what's charged in the—that's what determines the reasonable royalty in the case or in the suit.

Now, I have looked at these agreements, and while there are several agreements by MercExchange for licensing these patents, I don't believe there is an established royalty.

BY MR. STILLMAN:

Q Why not?

A Because it doesn't meet the test; that is, a test for an established royalty is a sufficient number of licenses at a typical or a standard royalty rate such as to cause one to conclude that in this negotiation that same rate would be applied. And there are decisions which define that, but basically, that's the principle.

Q Now, I notice that you have a plus in that right-hand column. Explain to the jury what the significance of that [1943] this.

A Well, of course I say the impact enhances on the reasonably royalty, and I have a plus to indicate that. And what I'm looking at is all things being equal, that this particular factor would cause the royalty to be enhanced; that is, to be increased. And by—what I mean by all things being equal, we know what kind of license this would be. It would be an unlimited nonexclusive license for the practice of the patents-in-suit, and in the licensing by the patentee which is of record in the case, has been produced.

MercExchange has licensed patents for a specific field of use, a limited field of use, and has required not only royalties, but also equity shares; that is, shares of ownership of the companies that he's licensed in some cases. And that would

not be the case here because the license is granted as an unlimited nonexclusive license for practice of the patents-in-suit in a manner in which the alleged infringer has practiced the patents.

Q So in any event, have you, in fact, looked at all of the royalties received by MercExchange for licensing its patents?

A I believe so, yes.

MR. STILLMAN: Let me ask you, Joe, if you would put up 1382.

BY MR. STILLMAN:

Q What is this?

* * * *

[1980] Q And in this case, you have earned approximately $50,000 working with the Hunton & Williams' lawyers and with MercExchange; is that right?

A You know, I haven't done the multiplication, but that's probably about right. About a hundred hours.

Q And in your testimony before either a judge or a jury, you testified about what you consider the damages to be, right?

A It's not in all cases, but in the cases in which I have testified with respect to reasonable royalty, that's true, yes.

Q And the court or the jury doesn't agree with you every time, right?

A I think that's fair to say, yes.

Q And in the Syndia v. Gillette matter, the jury found that you overstated the damages by about 10 times; is that right?

A I don't recall the exact amount. I believe it was closer to like seven or eight times, but yes, that's correct.

Q You talked about a hypothetical negotiation in your direct examination, right?

A You mean today?

Q Yes.

A Yes.

Q And did you say that the hypothetical negotiator on the other side of the table from Half and eBay would be

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[1984] has to be below the cost that it would take the parties to design around the inventions, right?

A That's an oversimplification. I think that one has to consider whether the design around, the alleged design around accomplishes the same result. There are times when in the real world when a licensee—a would-be licensee says that I can make Product X by some other process, I don't need your patented process, but it might cost him more to make it. The product might end up not being as pure, the product might not be—I have a lot of experience in the textile industry, and the polymers and the plastic or the resin that go into synthetic textiles require a certain degree of purity, otherwise the textile, when it's produced, is brown or gray rather than white.

And so it's necessary if you apply your particular rationale that the royalty can be higher than this cost difference. It's necessary to assume that exactly the same result is achieved through the design around. If there is—changes that would affect the saleability, those would have to be taken into consideration as well.

Q All right. But that was—we are back to the start which is that if at a minimum—assuming you can make these changes and still have a commercially acceptable and successful product or system, assuming you can do that, then the reasonable royalty needs to be lower than the design [1985] around cost; otherwise, the accused infringers will leave the table and say you are not being reasonable, I'm going to go off and I'll design around this thing, and there won't be a deal, right?

A Well, I have to put it in context again. I mean—

Q So you disagree with that? If you disagree, fine, you can disagree.

A I would agree if when you say commercially acceptable means the same thing. You have to take into consideration what commercially acceptable means. You might be able to have a business. You might still be able to operate. But can you operate at the same level of efficiency with the same return, the same growth rate and attract the same customers to the same degree.

Q And in that situation, in that' situation, sir, this hypothetical negotiation would result in a reasonable royalty that is below the cost of this design around, right?

Assuming that the result of the design around does not have any impact on the conduct of the business, on the attraction of the customers, etc., if there is an impact that has to be taken into consideration, but assuming all of those things, I would agree with you, yes.

Q And you have even provided opinions and you have written documents where you say that it's equally important that the royalty be reasonable so that licensees will not be encouraged

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[2002] financial statements to something else?

A I don't think revenue is the only thing that's used in financial statements, but certainly there is no—there would be appear to be no law to eliminate revenue from financial statements.

Q Revenue has been used in this country to determine how, much money a company brings in for hundreds of years, right?

A I imagine that's true, yes.

Q And, in fact, in the majority of your 400 license agreements, you have used revenue as a royalty base, haven't you?

A No.

Q No?

A No.

Q Have you ever, sir, outside of this case, ever opined that gross merchandise sales was the appropriate royalty base?

A No, I haven't, because gross merchandise sales is an element or a factor that that's unique to Internet commerce, e-commerce. It hasn't been an alternative available to me in other cases.

Q But your answer is you have never—outside of this case, you have never opined or used gross merchandise sales as a revenue base—as a royalty base, have you?

A That's correct, I haven't.

Q And at least as of your deposition a month ago, you had [2003] no experience testifying regarding licensing of network technology, have you, sir?

A. You know, we went over that in the deposition. I recall that very well, and I think at that time I asked for a definition of network technology. I have had experience, as I indicated to you, on a matter involving the use of the HTTP, hypertext format on the Internet, and I have had experience in software licensing.

Q That's not my question.

A But whatever network technology is, I suppose the answer is no, I haven't.

Q Actually, what you were asked is, What experience, if any, do you have testifying as an expert in a trial regarding patent licenses involving licensing of networking, e-commerce, or Internet payment processing technology, and you said none.

A None, that's correct.

Q It's correct then and it's correct now, right? Absolutely. I haven't had a trial since then.

Q You said that GMS was unique in the Internet field; is that right?

A It certainly is a determination or a number that in my experience is unique to the Internet field. There must be other areas where that's appropriate. But I have to speak from my experience.

Q Well, a bank. Let's talk about a bank for a minute. A

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[2021] PROCEEDINGS

(Jury entered the courtroom at 2:15.)

MR. RANDALL: Thank you, Your Honor.

CROSS-EXAMINATION (Cont'd.)

BY MR. RANDALL:

Q. Mr. Evans, would you like to see the chart from Mr. Troxel's expert report that shows that he arrived at the ReturnBuy gross merchandise sales figure by multiplying its revenue times 210 percent?

A. I don't believe I need to see it. I did refer to it during my lunch break.

Q All right. Did you also—you've read Mr. Troxel's expert reports, right?

A. Yes, I have.

Q. Did you read the part where he says, Because of the nature of its business, ReturnBuy does not show a gross merchandising sales figure. It is therefore necessary to establish a reasonable royalty rate based on net revenue.

A. I recall that, yes.

Q. But that's not what you're doing here in front of this jury, right?

A. That's correct.

Q. You're doing the opposite, right?

A. Well, you say "the opposite," I don't know that they're opposite. But I'm doing something different, yes.

[2022] Q. So you agree that Mr. Troxel would apply a royalty rate to ReturnBuy's net revenue, right?

A. I recall that he said that in his report. I think you should ask him when you cross-examine him whether that's the case.

Q. Well, you, in arriving at your opinion and telling them they ought to apply gross merchandise sales for ReturnBuy, you have disregarded Mr. Troxel's opinion on that subject, correct?

A. Well my, my—as I recall, my role in the case is to determine the appropriate royalty rate and royalty base, but based on the opinions of the liability experts, and I have done so. I wasn't relying on Mr. Troxel for this matter.

Q. If you applied a royalty rate to eBay—strike that.

If you applied a royalty rate to eBay's revenue as opposed to gross merchandise sales, you would apply a royalty rate of somewhere between eight and nine percent, right?

A. That's correct.

Q. And that would be eight or nine percent of eBay's revenue for fixed priced gross revenue, right?

A. That's correct.

Q. And that would translate to about 30 percent of

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[2036] think it's appropriate.

THE COURT: Sometimes no. But in this case it was appropriate.

Next question.

BY MR. RANDALL:

Q. You agree, do you not, that you have not performed any studies or work to determine the certainty or reliability of gross merchandise sales, correct?

A. I'm not sure exactly what you mean by your question,. Mr. Randall. I'm not an accountant. I didn't see what raw numbers were used to accumulate gross merchandise sales. I rely on the fact that gross merchandise sales is almost always

the first so-called metric that is repotted by eBay in their quarterly reports, and it must be something that's accurate and something that's representative.

Q. At your deposition on March 26, 2003, were you asked the following question and did you give the following answer:

"You personally performed no studies or work to determine the certainty or reliability of the gross merchandise sales numbers that you claim are publicly used by analysts and so forth, correct?"

"Answer: That's right."

A. Yes. And I would give the same answer today.

Q. Do you agree, sir, that you don't even know what [2037] comprises gross merchandise sales?

A. It seems to me that the number is very self-defining. It's the value of the transactions conducted over eBay's website or Half.com's website, seller to buyer, on a quarterly or annual basis.

Q. At your deposition on March 26 did you, were you asked the following question and did you give the following answer:

"Do you know what transactions, if any, result in a gross merchandise sale as you've used that term in your opinions?

"Answer: I haven't concentrated on that. I assume that someone will be able to answer that question if it becomes important at trial. I think that the, that gross merchandise, as I indicated before, it's the total value of the transactions conducted over the eBay website."

A. I think that's what I just said, yes.

Q. Were you asked that question and did you give that answer?

A. Yes.

Q. So for instance—strike that.

You don't know whether failed transactions would be included in gross merchandise sales, correct sir?

A. You know, I remember your questioning me on that in the deposition, and frankly I'm not sure what you mean by [2038] failed transactions. And I think that whatever is included in gross merchandise sales is a good reflection of the value of the patents. It seems like it's the basis for eBay calculating their own commissions, and it would seem to me to be a good basis for the royalty basis.

Q. Sir, I'm asking you, you don't know whether or not failed transactions would be included or not in gross merchandise sales, correct?

A. I would assume that what is reported by eBay as gross merchandise sales includes whatever transactions are representative of transactions over the eBay website. I do not know whether failed transactions are or are not included. I would presume they probably are not included.

Q. And did you—were you asked the following questions and did you give the following answers at your deposition:

"Question: Well, I'm trying to figure out, sir, what would be included within a gross merchandise sale and what would not. Would, for example, a transaction where an auction is complete but yet the buyer, for some reason, does not pay the seller, would that be included in gross merchandise sale?

"Answer: You know, I have not focused on that, but if I were to guess—I know it's dangerous to guess—

"Question: I don't want you to guess, I want you [2039] to testify.

"Answer: Okay. I haven't focused on that, but I don't believe in my opinion that it should be deducted. I believe the gross merchandise sales is just as it says, gross merchandise sales. So if it's, it's not net of anything, including failed transactions."

A. Yes, I said that.

MR. RANDALL: Okay. So in your deposition—

MR. STILLMAN: Excuse me.

THE COURT: Excuse me.

MR. STILLMAN: Your Honor, I've been lenient about Mr. Randall's use of depositions, but in order to use the deposition it needs to contradict the testimony of the witness. And so far the last two questions and answers have been completely consistent with what his answer was, and so I don't think its appropriate.

MR. RANDALL: Well, actually the record will reflect that this witness just testified a minute ago that he would not include failed transactions in gross merchandise sales, and in fact in his deposition he said he would include failed transactions in gross merchandise sales.

MR. STILLMAN: I didn't hear that. And if the record says that, I apologize.

THE COURT: All right. I'm sure you'll be careful [2040] in not using deposition testimony to impeach if, in fact, his answers are the same?

MR. RANDALL: Absolutely.

THE COURT: And not word-for-word, but basically the same.

MR. RANDALL: Right.

BY MR. RANDALL:

Q. So Mr. Evans, at the deposition you testified that you would include failed transactions in gross merchandise sales, and today you testified that you wouldn't, correct?

A. Well, in remembering what you said and what I answered today and what I answered then, I suppose that's the conclusion you would reach. But I think that my answer, my answer overall, is that whatever eBay reports as their

gross merchandise sales is; to me, a number which is less susceptible to argument and more representative of the value of the patented technology than any other number I could focus on. Details such as failed transactions, frankly, it not something that I think has, would have had any kind of a significant impact on the number.

Q. Isn't it true, sir—strike that.

You don't know, you have no—strike that.

You have no idea what percentage of transactions on eBay fail, correct?

A. That's correct. I do not know that percentage.

[2041] Q. And isn't it true that you are just guessing that gross merchandise sales is a more certain and reliable number than revenue?

A. It's not true that I'm just guessing. What I see is that eBay is a company that is growth-oriented, that focuses on its gross merchandise sales, and it asks analysts to focus on gross merchandise sales. And the growth aspects of the company axe such that the value of the patents are best reflected by that, by that number.

Q. You've stated that one of the reasons why you think gross merchandise sales is appropriate is because eBay uses that figure in SEC filings; is that right?

A. I'm not sure that—I assume that number is used in SEC filings. I'm focusing more on eBay's quarterly reports and annual reports in which that number is highlighted.

Q. In fact, you have no idea whether that number is used in SEC filings, do you, sir?

A. Sitting here today—I've reviewed the SEC filings. I think mentioned that in my direct testimony. I am not 100 percent positive whether or not it is. And, I mean, I didn't think that today I was going to be subjected to a memory test, but there's sufficient use in my review of the documents of GMS that I believe GMS is the best number to use for the royalty base.

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[2067] Q. Are you aware that eBay Motors charges a fixed listing fee of forty dollars and a fixed transaction fee of forty dollars?

A. I know that eBay Motors has fixed fees, yes.

Q. So if for example a Ferrari sold on eBay for $100,000, eBay's take would be eighty dollars, right?

A. Think that's right.

Q. And what would Mr. Woolston's take be in that situation?

A. If the, if the value of the Ferrari is included in GMS—and sitting here today I'm not sure it is,' I'm not sure whether it's the value of the Ferrari included in GMS or the amount of money that eBay receives—but if the value were in GMS, Mr. Woolston's take would be .75 times whatever that value is.

Q. Times—

A. I have not gone into that detail.

Q. Times 100,000, right?

A. If that is indeed the case, it's a matter of mathematics.

Q. $750; is that right? I'm not—

A. .75 percent of 100,000 is—1,000 would be 1 percent. So yeah, $750.

Q. So eBay Motors sold a car for $100,000, Mr. Woolston would then get 750 and eBay would get 80?

[2068] A. That's assuming that the GMS reflects the 100,000 number rather than the eighty-dollar number. And frankly I don't know whether it does.

Q. You don't know whether GMS is gross merchandise sales or revenue?

A. In that particular case I don't know whether eBay reports the cash value of the automobile or whatever they receive. I really don't know.

Q. The difference is some two billion dollars, right? I mean...

A. The difference is two billion—

Q. If eBay Motors has- sales of two billion dollars, then you don't know how the two billion dollars, whether it's gross merchandise sales or revenue? You have no idea, right?

A. Not sitting here today at this, on this, at this Stand, no.

Q. This hypothetical negotiation that you referred to is going to occur in *July of 2000*; is that right?

A. The one with eBay? Yes.

Q. And if you knew that in October of 2000 that MercExchange's board of directors determined that the entire company was worth $50,000, that would be all of its patents, lock, stock and barrel, would that change your opinion in any way in this case?

* * * *

[2073] A. Well, I realize that the '176 infringement claim relates to the linkage between the BidXS site and the eBay site and other sites under this deep linking arrangement. And I, I, it's just as I testified, that has, that obviously has a value. The value is illustrated not only by the interest in BidXS, but also the litigation with Bidder's, Edge. But I testified also that that value could not be determined based on the information that we have received.

Q. You're aware that there are a number of these factors that relate to whether or not the patents assisted the accused infringer in terms of success, right?

A. Absolutely. This is one that relates to whether or not the patents helped the infringer have success in non-patented areas.

Q. And there are a number of factors that relate to that, right?

A. This is the one that most directly relates to it. Others measure commercial success-, but presumably the others relate to the direct benefits, and to the direct, for example, royalty base.

Q. You're aware that by the spring of—strike that. By July of 2000, eBay was a huge success, right?

A. Yes.

Q. And eBay was a huge success by July of 2000 without any use whatsoever or assistance by Woolston's [2074] patents, right?

A. I believe that's true. But I believe that eBay felt that, to continue its growth and continue its success, it needed to have the use of the multiple database searching, and later to be able to offer Buy It Now, fixed price sales. And that was a part of its plan of continued growth and continued increased market capitalization.

Q. You thought in July of 2000 that eBay thought that it needed the use of these multiple database searches, but eBay doesn't infringe the '176 patent directly, do, you understand that?

A. They, they thought that they should, they should be able to allow others to do so. And I think there's no doubt, based on what I have said several times, that eBay had a genuine interest in the '176 searching functionality or technology, and that's exhibited not only by the bidders, the BidXS deep linking arrangement, but also by the Bidder's Edge litigation.

Q. You thought that practicing the '176 invention would be beneficial to the success of a company; is that right?

A. To eBay?

Q. To any company.

A. Yes. Sure. Yes.

Q. And you believe, based on your review of all the

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[2189] appropriate royalty—

Q The question is just simply this.

A Well—

Q Sir, the question is simply this. Were you asked this question and did you provide this answer? "They instructed you what the appropriate royalty base was, and you applied the reasonable royalty rate that Mr. Evans had come up with

to that royalty base to determine what the appropriate level of damages would be; is that correct?

"Answer: Yes. That's essentially what happened."

A Well, that's certainly the question and the answer. I think it's misleading to take this out of context without understanding what I meant when I was talking about reasonably—the appropriate royalty base.

Q You did not, sir, in this case, perform—strike that. You made no particular effort at all in this case to do a Georgia-Pacific factor analysis or to adjust it upwards or downwards, right?

A That's correct. I did not. I'm aware of what Mr. Evans did, but I did not perform any independent Georgia-Pacific analysis.

Q Now, you have taken no formal education courses relating to networking, the Internet or e-commerce, right?

A No, I have not.

Q You have conducted no studies of the reasonable royalty [2190] rates that would apply to patent licenses in the area of computer networking, Internet transactions or e-commerce, right?

A No, I have not.

Q You have not testified in court ever as to what a reasonable royalty would be on infringement patents relating to Internet transactions, right?

A No, I have not.

Q Except for this case and Goto.com case, you have not performed any consulting work that relates in any way to Internet transactions, networking or e-commerce, right?

A That's correct.

Q In your expert report, you asserted that your damages analysis was based on the expert report that you issued in the Goto.com litigation, right?

A No, that's not correct.

Q You didn't say that in your expert report?

A I don't believe so. I have a copy of my report here.

Q Why don't you look to your September 27, 2002 report at paragraph 16.

A I'm sorry, what was the page again?

Q Paragraph 16.

A Okay. Thank you. Yes, I see that. But I don't think I say I relied on the Goto.com data. Did you want me to read this or—I'm not sure what the question is.

[2191] Q All right. Hold on. One second. What I- have here is, paragraph 16. It states at the first bullet point—are you with me?

A Yes, sir.

Q —the 4 million was a settlement based on the damages calculated in the expert report that I issued in that matter. Do you see that?

A Yes.

Q In fact, you don't know whether you issued an expert report in that matter, right, sir?

A I could not remember at the time of my deposition. I know the question you are referring to. I could not remember that I specifically issued, an expert report. I did issue an expert report in that matter.

Q And was that produced in this case, sir?

A I believe it was—it was confidential, and I know I had destroyed my copy. Well, to answer your question, I don't think it was.

Q And back at your deposition just a month ago, you said you didn't know one way or the other whether you issued a report, right?

A Yes, that's what I said, that I could not remember whether I had issued a report or not at that time.

Q You also provided in your expert report that both you and Mr. Evans had reviewed an expert report from Mr. Palmer, and [2192] you had relied on it in forming your opinions, right?

A Yes, that's correct. I mean, the report said that it was part of the consideration, but I think both of us stated in our

depositions that that was an error, that Mr. Palmer's report never did get issued or written. It was just an oversight that was not taken out of the statement, the declaration.

Q An oversight?

A An oversight, yes, sir.

Q Both you and Mr. Evans signed your expert reports saying that you had relied—read and relied on Mr. Palmer's report when, in fact, that report never existed, correct, sir?

A That's correct.

Q You were paid $300 per hour for this service, right?

A Yes, that's correct.

Q Most companies don't have a gross merchandise sales figure, right?

A That's correct.

Q In fact, you can't even think of another company that has a gross merchandise sales figure outside of this case, right?

A Well, it would have to be anybody in the auction business who would certainly have a gross merchandising sales figure. It would have to be somebody who does something like an auction. You also have companies like Leftbid.com, for example, would be a company at that time has gross

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[2196] out. I didn't think we had—reducing the damages I didn't think would be a particular problem. That's rarely a problem with the defendant.

Q throughout this entire case in your three reports, you came up with this damage figure that eBay owed Merc-Exchange for the '176, some $10 million, without any data or information supporting that?

A We had data. We based it on international sales, and we thought that was a reasonable representation. Now, the attorneys found out more about how that worked out and what the relationships were, and it was finally decided that

really that was a very tenuous number and we dropped it. I don't know how else to say it.

Q What does international sales have anything to do with the '176?

A Originally it was thought that the international sales were on separate databases. I'm trying to remember the history how we—this whole thing got started. But I think everybody thought that it was on separate bases, and therefore it infringed the '176 by moving those between those databases.

And then it was found out that wasn't the case, that eBay actually had a centralized database, and this was not a searching of these various database for this information. And so originally, the concept was that international would be a—the sales that they made, that eBay made internationally [2197] would be a surrogate.

We had asked, of course, for benefits that the that would be attributed to other people's scraping the eBay database, and that was never provided. So we had—we were left with a position of not having a better data. We had this old data of the international which really obviously was not: going to be correct. And other than saying we knew it had to be conservative, it just didn't seem to make any sense to use it.

Q Were you aware that the contention that MercExchange's lawyers originally made, that these international sites infringed, was withdrawn in June of 2002? Were you aware of that, sir?

A Yes.

Q Then why did you continue with your opinion that eBay still owed $10 million in damages for those international transactions?

A Because it was certainly felt there was infringement, and that the international sales was the only—might be a reasonable proxy for the amount of the scraping that did go on which—I mean, it's known that there are agreements with

eBay and at least BidXS to use their database which I am told is an infringing situation, and that this perhaps the—at least the international was a conservative number. And then you stop and think, well, being just conservative isn't really [2198] justification for doing that, and that's when we took it out.

Q A month ago at your deposition you were comfortable that eBay owed $10 million, right?

A At that time that was really what precipitated the discussion between Mr. Evans and myself, was that after our depositions, as we were thinking about it sitting in the deposition, it became evident afterwards to us that that was incorrect and we changed it.

Q Did you think about submitting a supplemental expert report to let us know before trial, before we are standing in front of this jury, that you no longer are seeking $10 million?

A Well, that's really not my province, sir. I mean, this has to be the gentleman seated behind you there who instructed me whether or not it would be appropriate to issue another report, and suffice to say, I was not instructed to do so.

Q Did you use, sir, this rule of thumb that you are talking about? Did you use that in this case to determine what you thought the damages would be?

A No.

Q. You didn't use it in any way, right?

A I didn't say that. I used it as a check on the reasonableness of Mr. Evans' calculation, but I didn't make any—I didn't apply it in any way, shape or form to come up with a rate.

* * * *

[2200] A Oh, I didn't say that. I mean'

THE COURT: Just answer the question.

THE WITNESS: I said I used the rule of thumb for one narrow purpose, and that was to see if Mr. Evans' rates were reasonable, and that's what I used it for.

BY MR. RANDALL:

Q It was your opinion, based on all the information that you reviewed in this case and your experience, that because of the nature of its business, ReturnBuy does not show a gross merchandising sales figure, it is therefore necessary to establish a reasonable royalty rate based on net revenue, right?

A I said that in my first report and I was incorrect. That's completely wrong.

Q Completely wrong?

A Wrong. I don't know if it's completely wrong, but it's wrong.

Q When did you see the light?

A Well, whenever I last read the report.

Q It was right when you said it, right? That's paragraph 73 of your report.

A Well, except—but also in that same report, I didn't apply that. I mean, I made the calculation of ReturnBuy based on gross merchandise sales. And why that was written, I can't answer that. It's an error in my report.

[2201] Q Well, did anybody ever come up to you and say, Mr. Troxel, you are just wrong on this; this statement is therefore necessary to establish a reasonable royalty rate based on net revenue? Did anybody tell you in this case that you got to change that opinion?

A Well, I guess it shows that not too many people read my reports because no, that was never said to me as such. I did not realize that I said it in my report until I read it in preparation for the trial.

Q When did you decide that that statement was wrong?

A Well, when I read it. I read it a week or so ago and I realized it was incorrect.

Q A week or so ago?

A Approximately. Whenever I started reading or preparing for this case, for the trial.

Q You expected this to come up?

A I expected my report to come up, and so I read my whole report and I saw that it was in error.

Q Have you discussed this with the lawyers or with Mr. Evans?

A I pointed it out to the attorneys. I don't know if Mr. Evans—if I ever discussed it or not. I don't know.

Q When did you point it out to the attorneys?

A The last few days.

Q So your statements in your report, you don't believe [2202] there are any—you don't believe they are correct any longer; is that right?

A Well, that particular statement, yes. I don't understand—that was erroneous. What I was trying to do at the time was—that report, that portion of the report, of course, applied to my verification of Mr. Evans' numbers, quantified test. I didn't do that at all when I made the calculation of damages, and I can't recall what tortuous thinking escaped me to write that particular thing at that time. It's incorrect. It's wrong. But I did it correctly to calculate the rates. There is nothing wrong with the damages number. The number—what's wrong is the way that I applied it.

Q Are you finished?

A I'm finished.

Q It is true that ReturnBuy does not show the gross merchandise sales figure, right?

A They did for their fiscal year 2001. And I know they obviously must have a gross merchandise sales figure, but it was never provided to me, that's correct.

Q You remember your earlier testimony about Goto.com? You said you wouldn't want to project income going forward because you thought they were out of business, right?

A Because they weren't using a patent. Because they were not going to practice the patent.

* * * *

[2207] course, in hypothetical negotiations both parties recognize there has been infringement, and both parties recognize that, the patents are valid and enforceable. So the negotiators would say, all right, I owe you some money, and I have infringed, indirectly infringed the '176, and so we've got to come up with a number to compensate, and that's what the negotiators would say. And so this is my way of trying to come up with some number that would be a proxy for that discussion.

MR. RANDALL: Can you, Mr. Davis, pull up slide 103?

BY MR. RANDALL:

Q This is your demonstrative, right, Mr. Troxel?

A Yes, it is. That's correct.

Q For the '176 patent, MercExchange is asking the jury to provide Mr. Woolston with $1.32 million in damages for the last 18 months, right?

A This flipped over to a different one.

Q No, no. Go to 103, Slide 1. If you look at the blue section.

A Yes, sir.

Q All the way over to the right.

A Yes.

Q On the row that says Half.com.

A Right.

Q Your total damage number for the '176 from Half.com is [2208] 1.32 million, right?

A That's correct, yes.

Q And that's for 18 months, right?

A That is for—yes, that's about right.

Q And for the '265, and that's in the yellow, you are asking for 3.96 million from Half for 18 months, right?

A Yes, that's correct.

Q So the total from Half, if we go down to the purple, that's $5.28 million for 18 months, right?

A Yes.

Q Now, put that in perspective, Half's total profit for the last three years was only 1.3 million, right, sir?

A I don't know that I ever saw any of their profit figures other than that projection that they had provided.

Q Well, you don't know?

A If you had that slide that shows the projection, I could say whether that's what it was. I never received any actual numbers for Half.com.

Q Well, didn't you apply the rule of thumb to make sure that you were only asking for, only, 25 to 33 percent of their net income?

A I applied the net income—the rule of thumb as a starting point. Do you have that other—if you can put up that other slide, I can explain to you what I did with Half.com.

[2209] Q The question is did you apply the rule of thumb to Half.com's damages that MercExchange is seeking, Mr. Woolston, just to determine if you were only seeking 25 to 33 percent of their net income? Did you do that?

A I would have to look at the—what I did was to apply that to look at Mr. Evans' rate. I did not look at it on any basis of their total income in any way, shape or form.

Q Let's go to the next side, Slide 2. This is Half.com pro forma income statement, and if you look at the bottom right-hand corner under operating profit—this is your slide, right, Mr. Troxel?

A It's my compilation of the slide—of the figures that were provided to me, that's right.

Q Well, you prepared it with the lawyers to come and present to the jury, right?

A I prepared it myself, yes.

Q Thank you. Bottom right-hand corner in yellow, total operating profit for Half.com for the last three years, $1.38 million, right?

A Right. That includes that loss in the first year 22 million, and then â profit in 2001 and a profit in 2002.

Q In the last three years, net—strike that. Operating profit for Half is $1.38 million, yes or no?

A That's what they projected it would have been. I can't say what it was. This is the projection that Half.com made[2210] back in I think 1999.

Q And, in your opinion, Mr. Woolston should receive from Half for the alleged infringement of these patents over the last 18 months four times the amount of profit that Half has made in the last three years; is that right?

MR. STILLMAN: Excuse me. Could I object to this continuing reference to Mr. Woolston? Mr. Woolston is not the plaintiff in this case.

THE COURT: MercExchange.

MR. RANDALL: MercExchange.

THE WITNESS: We are here, and my understanding is, to determine the damages that MercExchange occurred—incurred, not whether or not Half.com made money. Whether they made money or not is incidental. The question is getting the plaintiff whole for his or her damages. So I don't think it's relevant, whether or not Half.com made any money or not.

BY MR. RANDALL:

Q But the question I presented to you, sir, was that it is your opinion that MercExchange should receive from Half.com for the alleged infringement of the two patents over the last 18 months almost four times the amount of profit that Half.com has made in the last three years?

A Oh, I think that's perfectly proper, yes.

Q That would violate just a tad bit the rule of thumb, would it not, sir?

[2211] A Not at all. Not at all.

Q All right. Mr. Woolston—strike that. MercExchange is accusing eBay of directly and indirectly infringing the '265 patent, right?

A That's correct, yes.

Q And that patent covers only fixed price sales, right?

A That's the interpretation that has been given to it, that's correct.

Q. And would you agree that eBay built its success on auction format sales which are not involved in this case?

A Yes. Fixed prices are growing considerably, but certainly their initial success has been very much attributable to auction sales.

Q MercExchange is asking for over 34 million in damages for the past 18 months from eBay, right?

A That's my recollection. I think that's about right. The slide is no longer up here, but I do think that's about right.

Q In fact, I think your last slide showed that you are asking for a total of nearly $43 million from eBay for just the past 18 months, right?

A Well, could you put the slide up? If you are going to ask me about the slide, I really ought to able to see it.

Q You don't know?

A My recollection is it's about that number, but I don't really care to subject myself to a memory test. Is there some

* * * *

[2233] Q. Now, let's just see if we can agree on the numbers.

You agree that, it's your testimony that at the time of the hypothetical negotiation in 2000, that what MercExchange was asking for, .75 of gross merchandise sales, exceeds eBay's entire operating profit for that year, right?

A. Well, yes. And of course they ran a loss the previous year too.

Q. So we're in agreement on that issue, right, sir?

A. Yes, that's probably true. That's true.

Q. Now, you said that the—strike that.

Isn't the purpose of this hypothetical negotiation a willing licensor, with a willing licensee, assuming infringement, they sit down, they turn up all the cards, like a poker game with all the cards turned up, and both parties have to work out a deal? Isn't that what happens at this hypothetical negotiation?

A. No, that's incorrect. Judge Markey made it very clear in Panduit that that was not the way a hypothetical negotiation ought to be conducted.

Q. Well, is your hypothetical negotiation, is the way yours would be conducted, that Mr. Woolston says, you know, here's what I want, and eBay says, okay, I guess I have to pay?

A That is not the case wither. The case is to look [2234] at what would be the reasonable amount of royalty that they should pay considering the importance of the technology to the, infringer and the value of the technology to the patent_ holder. It is a matter of—

Q. And you think—

A. It is a matter of—willing means only that, under the law, they have to come up with a rate. They're willing to do it because the law says you've got to come up with a reasonable royalty. And so to that extent they're willing. It's not a simulation of a real-life contract, real-life negotiation, it is an attempt for an equitable distribution of the, in order to make the patent holder whole.

Q. And in your opinion, in 2000, eBay would set-down at the table with MercExchange and it would be reasonable, in your opinion, for eBay to say I'm going to give you, Mister—MercExchange, I'm going to give you all of my profit, and then some? That would be reasonable?

A. No. What's reasonable would be for them to pay .75 hundredths of a percent on the amount of their gross merchandise sales. That would be what would be settled at the license agreement. And then that number would get. applied on an annual basis to the gross merchandise sales of eBay as you would go forward.

Q. And in 2000, at the time of this hypothetical [2235] negotiation, that would mean that eBay would have to turn over all of its operating income, and then some, right?

A. I assume that to be the case.

Let's see.

Q. You don't have to assume. Just please look at it and testify about it.

A. Well, let me just look at it and calculate.

They would turn over, yes, they would be expected that year to, on the basis of that, of those gross merchandise sales, to pay in excess of what they had as an operating profit. That's correct.

Which is—the answer to your question is yes.

MR. RANDALL: Can you skip a couple more slides, please? Stop right there.

BY MR. RANDALL:

Q. This is your slide about reasonable royalty for eBay's inducement of ReturnBuy, right?

A. Yes, that's correct. In the '265 patent.

Q. You never had any such slide in your report, did you, sir?

A. Certainly.

Q. Well, I'll take that back.

A. On inducement—

Q. I'll withdraw that question.

THE COURT: Let's move on to something else.

* * * *

[2298] is not going to talk about the claims. I understand that. But it is also a little improper for Mr. Robertson to get up and start testifying and arguing that he's never looked at the claims, this or that. He can do that on cross.

THE COURT: I already told him not to do it, okay?

MR. RANDALL: All, right. Thank you.

THE COURT: So you don't need to tell him. I told him.

Okay. Anything else, Mr. Robertson?

MR. ROBERTSON: Yes, Your Honor. In this expert's report, he only addressed the claims, specifically these engineering issues with respect to the '051 patent. That's what it says in his report at page 4, and that's what he addressed. He has never looked at, reviewed, and in bis report says I've never reviewed the '265 or the '176 patent. And it is the claims that are at issue here, and the claim needs to be enabled, and he can't give an opinion as to whether those claims are enabled or not if he has never looked at them and he hasn't put it in his expert report.

MR. RANDALL: Your Honor, this is the same issue that was raised before Judge Bradberry and Your Honor. He's rearguing the same thing. I can point to—

THE COURT: I don't see any difference in—first of all, when Judge Bradberry heard this issue, he originally agreed with the plaintiffs, I believe. Then he reconsidered [2299] and agreed with the defendants. That was appealed by the plaintiffs and I agreed with Judge Bradberry, correct?

MR. ROBERTSON: Your Honor, this specific issue was not in front of Judge Bradberry. Now, he can talk about what he's been talking about, the state of the art during that period of time, but when he's going to get into now the issues of whether or not the claims of '265 and the '176 are enabled by the specification, it's completely outside of his reports. It's nothing he's ever given testimony—

THE COURT: He's not going to talk the claims.

MR. RANDALL: That's right.

MR. ROBERTSON: Then his testimony is irrelevant, because that's what the jury is going to be instructed on.' Is the claim enabled? This is—I'm looking at, Your Honor, the Federal Circuit Bar Association Model Jury Instruction.

THE COURT: Are you the one who did the instructions that didn't put "modified" in there?

MR. ROBERTSON: I'm not the one, Your Honor, but I do apologize. I heard about that and I apologize. I don't know if this one's not identical to the Federal Circuit Bar Association.

THE COURT: I plan to use those instructions, maybe as modified, if I can. The jury will be instructed as to what the, hopefully what the appropriate law is with [2300] regard to this area.

Now the Court has already ruled, Judge Bradberry ruled originally that several of the experts couldn't testify because they were basically testifying as to the '051 patent. Now I think after further review he realized that it was more than the '051 patents, but the other patents were basically similar in some respects and therefore that's why he changed his opinion.

So I'm going to let it come in, and I'll let you cross-examine him, and obviously the jury will be instructed appropriately as to the law in this case.

MR. ROBERTSON: Thank you, Your Honor.

THE COURT: Thank you.

(Jury entered the courtroom.)

MR. RANDALL: Thank you, Your Honor.

BY MR. RANDALL:

Q. Dr. Crocker, based on your review and analysis of Mr. Woolstom's patent specification and your years of experience in implementing Internet payment systems, did you form any opinion regarding whether Mr. Woolston's patent specification in this case describes a business model that a person of ordinary skill in the art in the 1994/1995 time .frame could make and use without undue experimentation?

A. You asked if I'd formed an opinion. Yes, I did form an opinion when I read it.

[2301] Q. And what is that opinion, sir?

A. That it describes a, sort of a general concept, but not nearly enough to actually be able to build and operate such a system.

Q. You mentioned some of the business problems in your report, specifically settlement. Can you discuss what you mean by that?

A Settlement. When two parties agree to make a payment, that's a very important moment in time, because both parties walk away understanding that, it feels like it's happened. But in fact the money has not actually left the first person's pocket and hasn't shown up in the second person's pocket. So the distance from, or the span of time from the time the agreement is made until the money actually is moved is all part of a settlement process. There may be multiple steps in there. For example, just going back to the credit card cycle that we discussed earlier, when you sign your credit card receipt at, say, at a restaurant, then you have committed to make that payment, but you haven't gotten the bill from the credit card company and the merchant hasn't actually gotten the money. What he's got is a piece of paper.

That evening he sends in to the bank the same information again, even though it's already been sent, because now it includes the tip and so forth. And that [2302] evening there is a very heavy processing that takes place behind the scenes, and then after some amount of time, one, two or three busi-

ness days, typically, money moves between the banks—and then actually the money usually moves that night—and then the money moves into the merchant's account, into his checking account usually one, two or three business days later. Those are the settlement processes that stand behind the original transaction.

And you can look at almost any payment system, except for taking out some change from your pocket and plunking it down on the counter, but anything that involves paper or electronics is usually a considerable distance from the time the agreement is struck and you can sort of think that you've got a deal, till the time then money is actually in your possession and you can do something with it.

Q. Did you encounter settlement problems when you were at CyberCash?

A. Well, they're a core part of building the peer to peer payment systems. And the credit card system as well. And in designing a payment system, that's an absolutely central part of the process.

Q. The patent specification suggests that the participant might be buying and selling in a hot market with rapid reselling. Does that require settlement procedures?

MR. ROBERTSON: Objection, Your Honor. This is [2303] leading. And I know he's reading from the patent.

THE COURT: Sustained.

BY MR. RANDALL:

Q. Based on your review of the patent specification, does, is there any aspect of that application that you believe requires settlement procedures?

A. Well, each transactions requires settlement, and depending upon how much time and work and risk that settlement takes determines what happens after that. The picture

painted in that specification includes the idea that there could be a speculation that somebody could buy something and immediately turn around and sell that same object. If you string a few of those transactions together, I buy it and sell it to you, you buy it from me and you sell it to the next person and so forth, the money is actually trailing way behind. And it hasn't left the first person's pocket and it hasn't, doesn't get to the last person's pocket for quite a while.

If anything goes wrong in that process, and there's quite a few things that can go wrong, then everybody's left pointing fingers at everybody else.

So it's very important in building such systems to say what happens in all of those cases. Otherwise, it becomes just to somebody's advantage to make something go wrong and you have a calamity right away.

[2304] Q. In your opinion, does Mr. Woolston's specification show how to achieve settlement?

A. No. It talks about the fact that it happens and as if it's a straightforward matter. And I must say, when I read it, I said exactly how is that going to happen? It was like a big gaping hole.

Q. Based on your review of Mr. Woolston's patent specification, does it acknowledge that settlement is a -problem at all?

A. I believe it actually suggests quite the opposite; that it's a straightforward matter.

THE COURT: Mr. Randall, it's MercExchange's patent.

MR. RANDALL: I'm sorry.

BY MR. RANDALL:

Q. Would a person of ordinary skill in the art in the 1994 time frame, in your opinion, need to experiment in order to resolve this settlement question?

A. Yeah, I think it would take experimentation, I think it would take some research, and I think it would take consultation between technology-oriented people and people-who have experience with building and operating banking systems and financial transaction systems. I don't think that you can hire programmers, software engineers, who are capable of building very elaborate and interesting systems, [2305] but if they don't have any experience in that field, I think that it would be very problematic for them to try to build such a system.

Q. You mentioned in your report finality of transaction. What is finality of transaction?

A. When is the transaction finally complete. Again, if you look at a credit card transaction, I can go in and buy some-thing, and then if I have an objection, I can go to my bank and say this transaction has something wrong with it. The goods were delivered; are poor, or in some cases you have opportunity for buyer's remorse where you can un-do a transaction a few days later.

When does the merchant know that the deal is finally complete is a critical kind of question. And "so there is—the term finality is a term of art in financial transactions, and until you have finality, you can't close the books and say that that's a done deal.

And again, in looking at the potential for a sequence of transactions, the picture that's painted in that specification is that you have a series of transactions which are initiated one after another before any of, any of them have reached finality. Or if they have reached finality it's not said how that's done, and just raises a large number of questions.

Q. Does MercExchange's patent specification show how [2306] to achieve finality of transactions?

A. Not that I can see.

Q. Is transfer of ownership, in your opinion, part of finality of transaction?

A. Yes, it is.

Q. What is required to achieve finality of transaction?

A. Well, you have to have the money moved, you have to have the ownership transferred, and you have to be past the point at which there is a—let's see how to phrase this. Where somebody can say there's something deficient about this and I want to un-do the deal.

Now, there's always a time—I mean, you walk away from something and the deal can be complete, and then you can change your mind later, and the other party can say, hey, we're done, too bad. But there is a point sort of before the deal is finally closed when you can un-do it. And it's a question of exactly what is that moment and all the pieces that have to be in place.

Very much depends on the kind of transaction. Of course, it's a much bigger deal to buy a house than it is to buy a newspaper, and so the issues related—these are business and business law issues, primarily. What constitutes the finality of transaction in buying a newspaper out of a vending machine is very different from the closing of a transaction like buying a house. And then you have everything in between.

Q. Would a computer science major, in your opinion, reading MercExchange's patent specification, have known how [2306] to achieve finality of transaction?

A. No. I think there's—at the risk of being slightly lighthearted about this, I think there's only two cases: A computer science major who reads it, knows that he doesn't know, and the computer science major who reads it and thinks he might know. I would say stay away from him.

Q. Based on reviewing MercExchange patent specification, would one of ordinary skill in the art have known how to make a system to achieve finality of transaction?

A. I don't believe so.

Q. You mentioned also in your report risk management. To be—first of all, what is risk management as it relates to

payment processing?

A. Well, it's natural in building any kind of system, payment processing or anything else, is—focused on what happens when things go right. Risk management, refers to doing a sort of almost parallel defensive analysis of what happens when things go wrong? And-for that it's quite open territory where any number of things can go wrong, some of which are accidental, acts of nature, and others are due to [2308] purposeful, malicious intent or differences in goal structure of the parties involved.

Q. To be operable, does a system have to explain and set the risk management rules?

A. Well, I would think so, because particularly when we're talking about payment systems, it's just an inherent part of any payment process, that if there is an obvious opportunity for fraud or for one party to make out better than it should, then those things absolutely will happen. We're not talking about a safe world where people are around to help you. It's basically a world in which, if somebody can take advantage, they will. And that I think certainly in any systems that handle money—there may be other kinds of systems in other places where one lives in a much more benevolent world—but certainly in anything involving money, one has to look carefully at the protections and the safeguards and the mitigation of all these various kinds of risks.

Q Were these-issues that you encountered at CyberCash?

A. Sure.

Q. Well, didn't people of ordinary skill in the art in '94 and "95 already know how to resolve these issues?

A. Well, we're talking about systems that had not been built in combinations involving classical banking [2309] systems and the Internet technology and other aspects of electronics and computing. The pieces had not all been put together again—put together. They raised some classic problems, but they also raised some new kinds of problems. And

you know, no guarantee that you could see all of them, but you certainly could see a bunch of them, and not all of them had clean, easy solutions. We spent considerable time on a variety of different kinds of risks.

Q. Can you explain what these risk management rules that MercExchange's specification fails to provide?

A. Let me pick out one or two, just to give kind of a feeling for the range of issues.

MercExchange is built upon the idea of a pawnshop, shopkeepers, consignment operators, where individuals would bring some goods to be sold and put them under the care, in the custody of those shopkeepers or pawnbrokers or whatever. Then there would be the electronic announcement of these goods across these different shops and an auction or a sale or whatever would take place, and then payment process and a transfer of title and eventually delivery. That's the basic picture that's painted.

[2310] So what can go wrong in that? Well, the goods might not be as described, or the buyer may be unhappy with the goods. And so those are kind of ordinary things that you could anticipate.

But other things could go wrong. For example, the shopkeeper could go out of business. We're not talking about rocks of Gibraltar here, we're talking about large number of relatively small operations scattered about the U.S. or perhaps around the worlds. And as we've seen, you know, you can walk up to that shop one day and discover that they're out of business. Well, what happens to the goods that are inside that store? Who owns them? Can you get them back? If they have been sold, how does the person who has purchased them get them? What happens if the owner of that store has absconded with all of the goods and left both parties holding the bag? Some aspects of that has to be resolved up front.

Let me go on for just a second to paint a very different kind

of risk that is rather novel with respect to the fusion of the bricks and mortar technology with the Internet technology.

One of the attractive things to do if you have a way of moving money around, is to launder money. This invites organized crime and is a very big issue with respect to the Office of Currency Control and Justice and Treasury Departments. There are safeguards in place that prevent moving large sums of money around. So you have a limit of $10,000 for cash transactions, otherwise they have to be reported. You have to $3,000 limit on how much can be sent [2311] by money order. These numbers get moved up and down depending upon how much crime is taking place. Very complicated business.

When you have a new market being created, one of the things to examine in that market is, is there a way to put fake transactions through that system in a way that it may look on the surface that you're just conducting an auction or you're just conducting a sale, but in fact you've got buyers and sellers in collusion moving transactions around whose sole point is to actually make money show up from one place to another in a way that makes it very hard to trace or that defeats the existing currency controls.

Build a system like that with no controls, and particularly if you build a system that makes it easy to defeat that, and I can assure you that you will have a visit from a number of people carrying badges from various agencies in Washington.

It makes no sense to try to define such a system without having at least some semblance of some thought about the protections against that kind of thing.

So there's two very different kinds of risks for example.

Then there's a bunch of technical risks about system failures and about, you know, computers breaking or messages

getting lost or that sort of thing, which are also [2312] very absorbing in their own right.

Q. And do you believe that one of ordinary skill in the art, reading MercExchange's specification in 1994 and 1995, would be able to build his system without these risk management rules explained in the application?

A. Well, I don't see how at all.

Q. You mentioned scalability issues in your report.

What did you mean by that?

A. Well, it's a, it was—as I was describing earlier, it's one thing that can build a system that can handle a small number of users, a small number of transactions, and then as you scale it up to handle thousands, tens of thousands, hundreds of thousands, millions of transactions, technically life gets to be much more complicated.

If you take one of these computers that's standing around here and you hook it up so that it can handle messages that come in and out of it, it's no big deal, say, for one of these ordinary personal computers to handle, say a hundred incoming emails a day. Might be overwhelming to the person who has to read them, but it doesn't swamp that computer.

If you tried to handle a hundred thousand messages a day, the computer won't be able to keep up with it. It will run out of memory, the speed of the computer won't keep [2313] up with it, and it will just get clogged. So if you want to handle large numbers of transactions, I used just email as a ready example, but any kind of transaction, then have to start fashioning the computer power to match the amount of work that you're going to do. And each computer—you can buy bigger computers, obviously, but there's a limit to how big a single computer can get, and you have to start using multiple computers.

Also, it's difficult to bring all transactions from all over the globe to a single point. So it's important to be able to describe

these transactions and have them processed in different geographic locations, and then these different centers would have to interact with each other.

So the challenges of building a scalable system with multiple computers in a distributed fashion is very, very different from building a small, single computer which, you know, you can imagine an under-grad could do in his dorm room.

Q. In your opinion, did the MercExchange patent specification describe a scalable system?

A. No, it didn't at all, actually. It described to the extent that it described anything, it described essentially a centralized system, a single market-maker machine and then left it at that.

[2314] Q. You mentioned in your report, engineering issues regarding protocol design. What other unresolved issues, if any, did you detect in your review of MercExchange's patent specification?

A. Yes. In the area of protocol design, one of the fundamental things to wrestle with is what happens if you have more than one, more than two parties? It's one thing if I send a message to you and you wait for that and then you send me a response and I wait for that and then I send to you. The minute we involve a third party and we want to get some three-way communication going, it's very challenging to work out what the sequence is going to be. If I send a message to both you and to somebody else and I expect that both of you have got it, what happens if one of those messages is lost? What happens if they arrive, if you get it substantially before the other person gets it? What, happens if you take my message and you forward it to the third person and it arrives before my message to them arrives?

So these are technical—I mean, I'm now descending down into the sort of nuts and bolts issues.

In the CyberCash protocols that we built, for example, one

of the things that we were careful about is getting that sequence right. You may recall that we had the consumer send the merchant his credit card information, but [2315] we didn't want the merchant to be able to see the credit card information. One could have asked, well, why not just have the consumer send to our gateway the credit card information? That way it never goes to the merchant, and you never have the problem of revealing the credit card. And the problem is that if you do that, then you have a terrible problem synchronizing the transaction and making sure that the merchant knows that it's been sent and informing the merchant.

This way we were able to solve the synchronization problem of breaking it down into a series of bilateral, two-way transactions, and yet tunnel, if you will, or protect that information as it passes through the merchant.

So there was, it may not strike you immediately, but that was a subtle piece of design that solved that problem with respect to having multiple parties participate in a single protocol.

Q. Based on your review of MercExchange's patent specification, do you believe that it adequately describes the protocol design necessary to communicate among a distributed set of consignment nodes.

A. It was basically completely_ silent about that.

Q. Did you draw any final conclusion from your analysis of MercExchange's patent applications?

A. Well, it described a particular business model, as [2316] I said, of having shopkeepers, pawnbrokers, small shops, try to share their listings of items on consignment. And you know, it basically stopped at that point. And my reaction when I read it was that if I were evaluating it as a business plan; I would throw it back and say you haven't solved the hard problems. And if it were coming in as a term paper in a course I was teaching, I would give it a pretty low grade and say you've just begun with the preamble, and now you've got

some hard work to flesh it out and make a system out of this.

Q. Based on your opinion, did MercExchange's patent specification adequately describe the business and technical issues necessary to understand his concept?

A. I didn't find enough information in there for either the business issues or the technical issues.

Q. Based on your review and your experience—strike that.

Based on your review of—I'm sorry.

Based on your review of MercExchange's specification and based on your experience, did you draw any conclusion about whether one of ordinary skill in the art at the time, 1994 and 1995, would actually be able to build that system without undue experimentation based on the disclosure?

A. I did form an opinion, and the answer is there's [2317] not enough information there.

MR. RANDALL: Your Honor, I have no further questions.

THE COURT: Mr. Robertson, I don't know how long your cross is going to take. Do you want to—

MR. ROBERTSON: It's going to take longer than 15 minutes, Your Honor.

THE COURT: Okay.

MR. ROBERTSON: Would you like me to start, or do you want to break and start fresh tomorrow?

THE COURT: If you know you have a good breaking point in about 15 minutes, then we can go ahead and start. If not, I'll let you start tomorrow.

MR. ROBERTSON: Why don't I see if I can go for about 10 minutes or so?

THE COURT: Every 10 or 15 minutes would help.

MR. ROBERTSON: All right. Sure thing.

CROSS-EXAMINATION

BY MR. ROBERTSON:

Q. Good afternoon, Dr. Crocker.

A. Hello.

Q. Dr. Crocker, I understand you rendered two reports in this case; is that correct?

A. Yes.

Q. And one was a June 10, 2002 report; is that

* * * *

[2435] THE COURT.: Ms. Albert, if don't stop shaking your head. It's very difficult for me when you are shaking your head and I'm trying to look at Mr. Robertson, okay? Thank you.

MR. ROBERTSON: If he wants-to elicit what is stated here, I won't have an objection. But if he talks about search agents searching the plurality of electronic markets or auctions, it's not in the report, Your Honor. Search agents are—

THE COURT: You are limited to what's in the report.

MR. RANDALL: Absolutely. And I have said that consistently. And we've had these arguments before. But I'm going to elicit straight from the' report and you have my word on that.

MR. ROBERTSON: He's not an expert in search agents.

THE COURT: If it's in his report he can testify to it, Mr. Robertson. That's it.

MR. ROBERTSON: If he wants to qualify him as an expert in search -

THE COURT: Okay. I won't qualify him as a, quote, expert in search agents. I'll simply qualify him as an expert in e-commerce, computer science—

MR. RANDALL: And searching databases, how about

that?

THE COURT: How's that?

* * * *

[2491] can't unplug this thing.

In the record it states, "Now this is different than the ReturnBuy issue in many respects," talking about the GoTo.com case, "and therefore in order to comply with Federal Rule 408, the Court will let in, the defendant's seek that the agreement be redacted to remove any statements by GoTo.com concerning the validity of the '176 patent." It says '165, sic. "So therefore the Court will let it in subject to any redactions that the Court or the parties need to make." And we go on through it.

I thought that was pretty clear that the Court was going to redact, or at least indicated to the parties that what should be redacted is statements regarding, the vapidity of the patents. I think what Mr. Robertson argued at the bench was that settlement agreements or license agreements should come in in general. The specific issue was whether a admission of validity should come in or not. I think the Court made it very clear that that should be redacted.

THE COURT: I looked at my notes after the conference.

MR. RANDALL: All right. And it's that type of thing from the witnesses repeatedly and from Mr. Robertson that I can't tolerate.

THE COURT: You have the same transcript that has

[2492] MR. ROBERTSON: Your Honor, I haven't seen the transcript.

THE COURT: You might want to look at it.

MR. ROBERTSON: I'll do that. I mean, I apologize. You know, if that was the ruling, I mean, maybe there was some

ambiguity, because there is—

THE COURT: I'm sure you didn't mean to do it.

MR. ROBERTSON: But, you know, Your Honor there's a lot to keep in your head at the time and—

THE COURT: I understand, believe me.

MR. ROBERTSON: And I apologize, in the heat of battle, with the witness on the stand, you know, I apologize. If that's the ruling, then that's the ruling, and I apologize to the Court.

THE COURT: That's fine. I appreciate that. Okay. We'll take a break.

(Court recessed from 3:40 until 3:56.)

MR. RANDALL: Your Honor, with respect to

Dr. Crocker, I'm not asking that you inform the jury of anything with respect to his expert status, but I just want the record to be clear that the Court did accept him as an expert; is that right?

THE COURT: Yes.

MR. RANDALL: Dr. Keller, I'm sorry.

THE COURT: Yes. I assume we have the same, not

* * * *

[2509] the parties, both sides.

Q And included in the depositions that you reviewed, did you review the deposition transcripts of Mr. Woolston and the depositions of plaintiff's damages experts, Troxel and Evans?

A Yes, I did.

Q Have you reached a conclusion in connection with your work in this matter?

A I have.

Q What conclusions have you reached?

A I have reached a number of conclusions. To summarize briefly, first; I believe that the use of gross merchandise sales for purposes of calculating damages is inappropriate.

Second, I believe that plaintiff's experts ignored, and should not have ignored, the possibility of designing around the patents that perhaps could have been done by eBay. And I think that was a second error.

Third, in their damage base, Mr. Evans and Mr. Troxel included transactions that may have not been infringing. This is separate and apart from relying on gross merchandise sales. And to the extent that was true, damages would be overstated.

Fourth, I believe that they also ignored certain license agreements that were entered into by eBay. One of those was before, what was in 1999, and involved a license payment by easy of $275,000 for an online information service [2510] patent. A second license agreement entered into by eBay at around this time period involved outright acquisition of online commerce patents for the total of $675,000. As far as I can tell, that information was ignored by plaintiff's experts and I believe should not have been. So those are at least four areas where I think plaintiff's experts have overstated damages.

Q And do you believe that, based on your work, that plaintiff's damages experts fully considered and appreciated the valuation of MercExchange as a whole in connection with their opinions?

A No, I don't. There was a transaction entered into by MercExchange in 1999, which is prior to the time that a negotiation between the parties would have taken place, whereby 10 percent of the stock in MercExchange was sold for $250,000. What that means is that the value of the entire entity would have been 2.5 million for all of the patents and any other value that existed within the entity. That's 2.5 million for everything, including these patents plus perhaps

other patents plus other assets. As far as I can tell, plaintiff's experts ignored that transaction.

Q And with respect to that valuation, how would that affect your opinion about what eBay or Half would have agreed to at this hypothetical negotiation?

A Well, if the value of the entire—including not just [2511] the patents-in-suit here, but other intellectual property as well was 2.5 million, then the value just of these patents would have to be less than that.

Q You also mentioned in the conclusions that you reached that you believe plaintiff's experts did not fully appreciate or apply the fact that eBay and Half could have designed around these patents. What effect would that have on the hypothetical negotiation?

A Well, as matter of economics, if a company is able to ,incur certain costs to design around one or more patents, those costs then set a cap or become the maximum the company would pay to take a license for those patents. That's true, because if you can figure out a way to avoid using the patents at a certain cost, then you will avoid using those patents by incurring that cost unless you can acquire the right to use the patents for less money than it would cost you to design around them. And as far as I can tell, plaintiff's experts did not take into account that possibility.

Q And based on your work in this Case, have-you reached any conclusions about the absolute, maximum worse case scenario damages that could be awarded to Merc-Exchange if the patents are found to be valid, if the patents are found to be infringed?

A Yes, sir, I have.

Q And what would that be?

[2512] A The maximum damages, assuming the patents are valid and infringe, would be 1.2 million against eBay and 1.2 million against flalf.com.

Q And have you formed any opinion with respect to_ whether that would be appropriate or not?

A Well, in my opinion, that would significantly overstate maximum damages here for the following reasons. First, the design-around cost, as I understand it, based on information made available to me from eBay's consultants in this area, would have been less than $15,000 and could have been accomplished—

MR. STILLMAN: Excuse me, Your Honor. I object to this testimony. Certainly an expert is entitled to rely upon hearsay testimony in forming his opinions, but this expert is testifying about a substantive fact that is not in evidence regarding the cost of any alleged design around that eBay may be able to accomplish. I don't think that's an appropriate reliance upon hearsay testimony for the truth of its contents.

MR. RANDALL: I think it's appropriate for experts to rely on information that other experts generally rely on. This expert is relying on expert reports and statements and opinions contained in other testifying expert reports. He put this information in his report. The other information he's relying on. It's in our technical expert reports, and it's been fully disclosed and provided to plaintiff's.

* * * *

[2515] MR. STILLMAN: Yes, sir. Yes, sir. But I'm just concerned about confusion on the part of the trier of fact that now they believe there is evidence of an $8,000 design around in this case and there isn't.

THE COURT: I think you can deal with that very well in your cross-examination when you ask him certain questions. I think it's appropriate. And you will be given every opportu

nity to cross-examine him. And I think that would be an appropriate question to ask him, frankly.

MR. STILLMAN: Yes, sir, and I agree. The thing that's a bit unfair is I'm not going to be given the opportunity to

cross-examine Dr. Weinstein after I have cross-examined the factual witness, and there may be things that come out in the course of that that would have a material effect upon his opinions which he doesn't know yet, and that's what's a little bit unusual about this situation. But you are exactly right, I can cross-examine him.

THE COURT: Okay. The objection is overruled.

(Whereupon, the jury returned to the courtroom.)

THE COURT: All right. Your last question?

MR. RANDALL: I believe what we were talking about-is the reasons why Mr. Weinstein believes that that maximum damage figure would be overstated.

BY MR. RANDALL:

Q And you were providing your reasons why that would be an [2516] overstated or inappropriate number. Can you please continue with your explanation?

A Yes. One reason why it, in my-view, would be overstated, it has to do. with possibility of design-around cost. And my understanding is that eBay could have designed around this patent in the amount of time that it had between the. hypothetical negotiation and the onset of the damage period, and that the cost of designing around this patent—these patents is less than $15,000; and, as a consequence, that investment on eBay's part, if in fact those are the design-around costs, would set a cap on the amount that eBay would be willing to pay in royalties for use of this technology.

In addition, as I mentioned—and I'll just go back very briefly—eBay took two licenses for online commerce patents at around this time period and paid $275,000 for one and approximately $675,000 for others, the second being a group of patents. Those provide a measure of what eBay was prepared to pay for technology at the time. So either of those kinds of concepts indicate to me that even the 1.2 million

against eBay and Half.com would be an overstatement of damages here

Q And your understanding of the design-around issues and costs came from—what was the basis for that?

A That comes from consultants retained by eBay to address [2517] that question. That would be Mr. Wellman for the '265 patent and Mr. Maly for the '176 patent. So I rely on their reports and their estimates of how much it would cost and how long it would take to do a design around.

Q Why do you think that gross merchandise sales is not the proper royalty base to use in this case?

A Gross merchandise sales is not the proper base to use for several reasons. First, eBay doesn't get paid gross merchandise sales. EBay receives net revenue money; and, as a consequence, it would not take a royalty based on merchandise sales where that—it's not receiving money for.

Second, in my experience, in matters such as these and looking at literally hundreds of license agreements, I have never once seen a license agreement where royalties were computed on a concept like gross merchandise sales. In virtually all instances royalties are computed based on revenues received, actual money received as a result of the use of the technology in question. Companies pay royalties based on the monies they get. They don't pay royalties on a concept like gross merchandise sales. I have never once seen that.

Q What's your understanding, if any, as to why it would be applied in this case, gross merchandise sales?

A I have reviewed the reports of Mr. Troxel and Mr. Evans. I don't see any basis for using gross merchandise sales. In [2518] their reports they talked about referencing certain license agreements that MercExchange had entered into. I have looked at each of those license agreements. None of those agreements contemplated the payment of royalties based on gross merchandise sales. Each of those agreements

made use of net revenues, revenues received for purposed of calculating' royalties. So I don't see any basis for using merchandise sales based on my review of their work.

MR. RANDALL: Can you put up demonstrative number 1?

BY MR. RANDALL:

Q Mr. Weinstein, can you tell me what this demonstrative is?

A Yes. This is an exhibit which was prepared under my direction at Micronomics of certain license agreements that were referred to by Mr. Evans and Mr. Troxel in their reports. The agreements that I am talking about here are in the column that says agreement. There are five going down the page. And then the royalty base that is used in each agreement, based on my review of those agreements, is shown on the right-hand side of this document.

So I went through five different license agreements that Mr. Evans and Troxel referred to in their work to see if, in fact, those agreements made use of' gross merchandise sales or a concept that was revenue based, such as revenues collected or net revenue.

[2519] Q And what's your understanding of these phrases for the Leftbid and Aden agreements where it says—and I'm paraphrasing—revenues collected or earned or fee amount collected or earned? What does that mean?

A To me it means money that comes in the door. It's revenue.

Q Does that mean gross merchandise sales?

A No, it definitely does not mean gross merchandise sales. It means actual money that comes in the door.

And if, for example, Troxel and Evans said that they believe those agreements represented a royalty base based on gross merchandise sales, would you agree with that?

A I would respectfully disagree. I don't think those agreements have a royalty base based on gross merchandise

sales. The royalty base is revenues or transactional revenues collected.

Q Let's go to the Leftbid license agreement, which is Tab 2. It is Defense Exhibit 387. Specifically go to page 4, Section 4.1.3. There is a phrase from the left. It says, The term gross transactions means gross transactional revenues collected or earned. Do you see that, sir?

A I do.

Q And what do you understand that to mean?

A That means money collected. And it was from that clause that I took those terms, those words transactional revenues [2520] collected or earned, and put it on that exhibit, that demonstrative exhibit that we just looked at. So I looked at these agreements, like the Leftbid agreement, and saw what the royalty base was and then put that on the demonstrative.

Q Let's go to Tab number 3, which is the Aden license agree-ment. And this, for the record, is Defendant Exhibit 379. Go to page 5, Section 5.1.5. States there, The term gross transactions means the gross transactional amount collected or earned by the company. Mr. Weinstein, what does that mean?

A It means revenue collected. It means money collected. It's essentially the same as the last one.

Q Let's go to Tab number 4, which is the Navlet license agreement. It is Defense Exhibit 377. Specifically page 3, Section 3.2. This states, Under the royalty, Navlet shall further pay MercExchange an annual payment the greater of the first 50,000 gross transactions collected or earned by the company. And then it says, or two, and there is—it's a little mixed up. It says 2.5 percent and then 1.5 percent, continuing royalty of, and then it's handwritten in there net revenue. Do you see that?

A Yes, I do.

Q And what does that mean to you?

A Again, it means money collected, net revenue.

Q And the section above that saying gross transactions

[2521] collected or earned, what does that mean?

A It's the same thing. It means money coming in the door.

Q Would you pull up Exhibit No. 5—I'm sorry, Tab number 5. Go to Section 1.4.

THE COURT: That's Exhibit 124—

MR. RANDALL: That is actually plaintiff's exhibit, Your Honor. I believe it's 731.

THE COURT: All right.

BY MR. RANDALL:

Q There it says, The term listing fees means gross fees derived and actually collected in the applicable calendar quarter by licensee. What does that mean, sir?

A That means money that comes in again. It's not just the listing fee, but it has to be actually collected. But it's certainly nothing like gross merchandise sales.

Q Beside the license agreements, do Messrs. Evans and Troxel offer any other support for their use of gross merchandise sales as a royalty base?

A I don't believe they do. In fact, my recollection from the deposition of, I believe, Mr. Troxel is that he typically sees royalties based on net revenue, not gross merchandise sales.

Q Have you, during your work, formed any opinion regarding whether or not this gross merchandise sales figure would be more certain or reliable than revenue as a royalty base?

[2522] A I believe, if anything, it would be less reliable. Revenue is typically used as a royalty base. As I indicated previously, I have looked at hundreds of license agreements over the years, and they use revenue as a royalty base. Royalties are applied to revenue.

In addition, revenue is a concept that is audited by accountants and by accounting firms. It's subject to certain account-

ing principles known as gap. It's a very standard measure and it is therefore reliable. Gross merchandise sales would not be nearly as reliable apart from the fact that it's not collected and companies don't pay on it.

Q Well, wouldn't the use of gross merchandise sales, wouldn't that lead to reasonable results if you were to apply gross merchandise sales, for instance, in every situation to this royalty rate?

A I don't believe so.

MR. STILLMAN: Objection. Leading.

BY MR. RANDALL:

Q Have you formed any opinion about what type of results application of gross merchandise sales to a royalty rate would lead to?

A In my opinion, a party would not enter into an agreement based on—that is, a paying party, the licensee, would not enter into an agreement based on gross merchandise sales because it would expose it to the possibility that it would [2523] collect less money on a transaction than it would have to pay pursuant to the agreement.

Q Can you give an example of such a situation?

A Yes. By way of example, I believe that when a car, an automobile or a vehicle is sold on ebay, there is a listing fee of $40, and then if a deal takes place, there would be another transaction fee of $40. So if eBay—if a car is sold on eBay, eBay would get a $40 listing fee plus a $40 transaction fee or $80. That would be eBay's revenue.

If you applied Mr. Evans or Troxel's percentage against the transaction price of the car, the gross merchandise sale, if the car sold for more than 11 or $12,000, eBay would have to pay more for that car to MercExchange than it would receive in fees; that is, .75 percent, which is the percentage that Mr. Evans and Troxel used, apply against a $20,000 car. Gross merchandise sales of $20,000 would be a hundred and fifty

dollars.

And so if you did a royalty based on gross merchandise sales, eBay would have to pay MercExchange $150. EBay's revenue from that entire transaction would only be $80. So eBay would lose $70 on that transaction, would lose more if the car was more expensive. Would still lose money if the car cost about $12,000 or more. And that makes—eBay would never enter into that kind of agreement.

And the ground rules of what brings us here today, [2524] in my experience, is that the parties must enter into an-agreement that they both live with. And eBay would not enter into an agreement where it was exposed to paying more for this technology than it was receiving. That makes no sense. It would never happen. It could never happen. But that's the consequence of relying on gross merchandise sales which eBay doesn't get.

Q Based on your work in this case and your review specifically of the work performed by Drs. Maly and Wellman, what effect, if any, would the ability of eBay and Half.com to design around the patents-in-suit have on this reasonable royalty?

A Those two gentlemen prepared reports in this case, which I have had an opportunity to review, and in their reports they indicated how much time it would take to design around the '265 and the '176 patents and what the cost would have been. And based on their computations, I have concluded that eBay could have designed around those two patents for less than $15,000 within the amount of time that it would have been necessary to enter the market, within the amount of time that was available to eBay here; and, as a consequence, that—$15,000 becomes the absolute maximum that eBay would pay for the patents-in-suit, assuming they are correct and they could, in fact, have designed around at the cost figures they provided.

MR. RANDALL: Mr. Davis, would you put up demonstrative number 6?

[2525] BY MR. RANDALL:

Q What is this demonstrative, sir?

A This is a summary of the testimony I have just given. That's a document prepared under my supervision at Micronomics.

And going down the left-hand side are the patents-in-suit, the '265 and the '176 patents. And in the body of the table are figures for how long in the estimate the estimation of Mr. Wellman and Mr. Maly it would have taken to design around those patents. That's the 200 hours for eBay on the '265 and 100 hours for Half.com on the '265 and a hundred hours for Half.com on the '176 patent.

And then the next column is the cost per hour that would have been incurred, according to Mr. Wellman and Maly, to do those design around. And so over on the right is the total design-around cost for each patent. And when one adds all of that up, the sum is $14,500. And that sets the maximum as to how much eBay would be willing to pay, because if eBay is asked to pay more than that, it will simply adopt the design-around solution.

Q And your work on this case, including the review of Maly and Wellman's information, assumes infringement, right?

A It does. It assumes that eBay has to do something. It [2526] assumes infringement. Also assumes that the patents are valid.

Q Which may or may not be actually the case, right?

A That's true, but I assume both infringement by eBay and validity.

Q Have you identified factors that would have been considered by the parties in a hypothetical negotiation?

A Yes, I have.

Q And please identify those factors.

A In matters such as this, what one does is put the parties into what's called a hypothetical negotiation. In other words, you force the parties to sit down-and negotiate at the time that infringement begins. Even-though there never was a negotiation, that's why it's called a hypothetical negotiation.

And in analyzing how that hypothetical negotiation would have come out, what I do here, and what I have done many, many times in the past, is apply what are called. the Georgia-Pacific factors. And there are 15 factors that are applied in situations like this which presumably would have been in the minds of the parties who were engaged in this hypothetical negotiation at the time. And so I have considered the Georgia-Pacific factors in connection with my work here.

Q And what conclusions, if any, did you draw in your work [2527] in applying the Georgia-Pacific factors to this hypothetical negotiation?

A Well, the ultimate conclusion is that the results obtained by Mr. Evans and Mr. Troxel substantially overstate actual damages that might have been experienced by Merc-Exchange. But what I did in my analysis is I went down each of the Georgia-Pacific factors and thought about whether, other things equal, that factor would have produced a high or a lower royalty rate.

Q And what were your conclusions with—general conclusions with respect to that work?

A The general conclusion is that the royalty rate that would have emerged from a hypothetical negotiation is very low, and whatever that royalty rate is would have been applied to net revenues, not to gross merchandise sales.

In addition, based on the analysis, I have concluded that the maximum that would have been paid would be limited by the design-around cost that we just looked at.

Q Now, also, as part of your analysis of the Georgia-Pacific factors, did you also review MercExchange's patent license agreements in this case?

A I did.

Q And to whom were those agreements entered into?

A They were entered into with Aden, Leftbid, Naviet. I think we saw one for AutoTrader and Goto.com.

[2528] MR. RANDALL: Before we get into those for a minute, can you put up demonstrative number 7?

BY MR. RANDALL:

Q Can you tell us what this is, sir?

A Yes. This is a demonstrative exhibit prepared under my direction at Micronomics. It's called Thomas Woolston's roles in the Aden entities, and it contains four of his business cards. One for MercExchange, where he is shown as the managing director; one for Aden, where he is shown as the chief technology officer; one for Navlet, where he is shown as the chief executive officer and president, CEO and president; and one for Leftbid.com, where he is shown as the CTO, which is chief technology officer.

Q And what effect, if any, did this have on your opinions with respect to your review of these Aden family agreements?

A Well, you recall that I reviewed license agreements between MercExchange and each of Leftbid, Navlet and Aden, and it's clear to me that these agreements were not arm's-length transactions. One of the requirements of the Georgia-Pacific analysis, when you are looking at license agreements is that the license agreements be an arm's-length transaction. Indeed, the whole point of the so-called hypothetical negotiation process is to put the parties back and force them to engage in an arm's-length negotiation producing an arm's-length result.

[2529] Here and elsewhere there is information that indicates to me that these entities were not arm's-length entities, and these license agreements were not the result of arm's-length

transactions.

Q Did you review the reports of Messrs. Troxel and Evans?

A I did.

Q Did you note their disagreement with you on that subject and opinions that, in fact, these were arm's-length agreements?

A I did note that they treat these as if they are arm's-length agreements. I respectfully disagree.

Q What effect, if any, on your opinions did Mr. Woolston's deposition testimony, that he provided legal services to Leftbid throughout the time he was there, have on your opinions?

A Well, typically, license agreements are negotiated at least, in part, by the legal department of the entity, of the company that's-engaged in the licensing process. And so if Mr. Woolston is providing legal services to Leftbid at the same time Leftbid is negotiating a license with MercExchange where he's a managing director, it's not an arm's-length transaction. It's not going to produce what-I would call a market result.

Q What effect, if any, on your opinions did Mr. Woolston's testimony in his deposition, that MercExchange and the Aden [2530] Enterprises had a common legal interest in the successful enforcement of MercExchange's patents, patents against third parties have?

A Well, it confirmed my view that these were not arm's-length transactions. They involve parties that, according to the testimony you just read, have an interest in enforcing the patents elsewhere. So these are not arm's-length transactions.

MR. RANDALL: Could you put up demonstrative number 8, please?

BY MR. RANDALL:

Q Mr. Weinstein, can you explain what this demonstra-

tive is?

A Yes. This is a demonstrative exhibit prepared under any supervision at Micronomics. It is a way of summarizing in pictorial form my review of those five license agreements entered into by MercExchange that I identified. Three are with the Aden entities and subsidiaries. Those are shown on the left, the Aden, Leftbid and Navlet license agreements. And then the other two involve license agreements between MercExchange and other parties, namely, Goto.com and AutoTrader.com.

Q Do you have any understanding as to why royalties were never paid under the Aden license agreements?

A Well, my understanding is that there were no revenues [2531] upon which royalties could be based. The information that I reviewed about the Aden entities indicated that their position was precarious, their revenue either was zero or very low in the context here, and, as a consequence, there would not have been sales sufficient to pay royalties on. That's separate and apart from the question of whether or not these were arm's-length transactions to begin with.

Q Did you draw any conclusions with respect to the Goto.com license agreements identified in this demonstrative?

A Yes, I did, and my conclusions are summarized on this exhibit. Basically, the Goto.com agreement was a settlement of litigation between the parties. It was not just the license agreement. It was a settlement of the dispute between the parties.

Q And so do you know what portion of the payment of $4 million was attributable to just wanting to avoid paying lawyers and what portion would be attributable, if any, to a royalty?

A It's not—

MR. STILLMAN: Objection. He couldn't possibly know the answer to that question.

THE COURT: I'll sustain that. You can rephrase, if you can, or go to another question.

BY MR. RANDALL:

Q Did you draw any conclusions with respect to your [2532] opinions from the fact that this was a settlement of litigation?

A Yes, I did. I know from reading the agreement that the settlement involved a $4 million payment. I also know from reading Mr. Ryan's testimony about it, that it was a settlement to dispose of litigation that was troublesome or annoying to him.

What I don't know is how much of that $4 million might be attributable to alleged damages associated with use of the patents-in-suit here and how much might be attributable to other issues between the parties or the desire just not to pay attorneys anymore to deal with the litigation. I can't break anything out from the 4 million.

Q And you mentioned Mr. Ryan. Was he the Goto.com representative that was deposed in this case?

A Yes, he was. He was designated as the person who was knowledgeable about this subject.

Q Did you note in your review of Mr. Troxel's reports that he applied a royalty rate to this $4 million?

A Yes, I did.

Q And what conclusions, if any, did you draw from that?

A I believe that the calculation that he made to translate the $4 million into a royalty rate was incorrect in the following sense. What Mr. Troxel did was he took the $4 million—assumed that all $4 million related to use of [2533] the patents-in-suit here—and divided the 4 million by revenues over a very brief period of time—I think it was seven months—in order to come up with a royalty rate of about 3.3 percent. I believe that's inappropriate, because under terms of the settlement, Goto.com had the right to this technology for

the life of the patent which extends out to the year 2015.

So when do you the computation using Mr. Troxel's methodology, but for the life of the patent, which is what they got when they got into this settlement, the royalty rate is about .13 percent. That is thirteen-hundredths of a percent, not 3.3 percent.

Did you also—strike that. On this demonstrative, you also have the AutoTrader.com agreement. What conclusions, if any, did you draw about that agreement?

A Yes. That was the—that was one other agreement that MercExchange entered into. And on this agreement, MercExchange would not get any royalties unless it could first enjoin eBay from infringing its patents. That was one condition.

Second, the agreement could be cancelled by AutoTrader on 15 days' notice.

Third, although it's not here on this demonstrative, the terms of the agreement were such that for the first $12 million in AutoTrader revenues, MercExchange would get no [2534] royalties at all, zero percent. And then from 12 to 24 million, if that level of revenue was achieved, MercExchange would get .25 percent, so that the average .royalty for the first 24 million in revenues would be very small.

MR. RANDALL: Your Honor, I have probably five more minutes or so.

THE COURT: Go ahead.

BY MR. RANDALL:

Q You did reach ultimate conclusions in this case regarding damages in this matter; is that right?

A Yes, sir, I did.

Q Would you please state those conclusions?

A Yes. To summarize briefly, I believe that damages would be capped by design-around cost for eBsy. And that

means that the maximum that eBay would pay, based on the reports of Mr. Wellman and Maly, would be $15,000.

In addition, I did a computation, which is contained in my report, that if in fact only certain transactions, namely, those involving a seller's use of the digital image and the use of the Billpoint pay system were found to infringe, damages would be roughly $50,000 against eBay.

Finally, I concluded that the maximum damage, if I use revenues but not gross merchandise sales, but revenues, and apply to those revenues the same royalty rates that had [2535] been developed by Mr. Evans and Mr. Troxel, damages then would be 1.2 million against eBay and 1.2 million against Half.com. But think that that last—those last two figures overstate damages given the design-around cost.

Q You mentioned Billpoint in your answer. What impact, if any, on your opinion—strike that. You have reviewed the deposition transcript of Mr. Trowel; is that right?

A I have.

Q What effect, if any, on your opinion did Mr. Trowel's testimony, that he was not going to include in his opinion anything regarding PayPal to support his damages conclusions, what effect did that have on your opinion?

A Well, I assumed that therefore there were no damages computed by plaintiff's experts that involve PayPal transactions.

Q Let me ask you. Assume, for instance, in connection with this hypothetical negotiation that in October of 2000 MercExchange's owners got together and determined the entire value of the company for tax purposes of $50,000. What effect, if any, would that have on your opinion regarding the damages in this case?

A Well, if that were true, that would set a limit as to how much value one could assign to these patents. If the entire

value of the entity taken as a whole is $50,000, then the patent value can't exceed that. It would have to be either [2536] equal to it if that's all there is in the entity or less than that if there is something else in the entity.

Q One more question. If the jury finds that eBay and Half in fact do not infringe, or if they find that these patents are invalid, should they disregard your testimony?

A Well, if they find that there is no infringement or the patents are not valid, then damages would be zero. There would be no damages.

MR. RANDALL: Thank you. I have no further questions.

THE COURT: We'll take a break at this time. (Whereupon, the jury departed the courtroom.) (Court recessed at 11:35 a.m., until 11:50 a.m.) (Whereupon, the jury returned to the courtroom.)

CROSS-EXAMINATION

THE COURT: Mr. Stillman.

MR. STILLMAN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. STILLMAN:

Dr. Weinstein, I'm Greg Stillman. You and I have not had a chance to meet before just a couple minutes ago; is that right?

A Yes, sir, that's correct.

Q Dr. Weinstein, Title 35, U.S.C. Section 284 says, in a patent case, that the court shall award the claim of damages

* * * *

[2540] Q And did you meet with Dr. Wellman to discuss his opinion that for 200 hours at $40 an hour, eBay could design around the '265 patent?

A I did not.

Q So you have not discussed this with Dr. Wellman at all?

A That is correct. I read his report.

Q And so you axe satisfied to offer your testimony based upon your reading of his report?

A Based on my reading of his report and my respect for the proceeding, because I'm aware that he's likely to testify here and be cross-examined.

Q Okay. Now, with respect to the Half.com alleged infringement of the '265 patent, it's your understanding that with a hundred hours of work also at $40 an hour, for a total cost of $4,000, Half.com could avoid infringement of the '265 patent; is that correct?

A Yes, sir.

Q And again, you are relying upon Dr. Wellman's work to reach that conclusion?

A Yes, sir, that is correct.

Q Do you know anything about how that design around would be accomplished?

A I do not. I have reviewed Dr. Wellman's report and Dr. Haly's report.

Q So you are offering this opinion without knowing how this [2541] design around would, in fact, occur; is that right?

A That's correct. My knowledge is limited to my review of their reports.

Q And with respect to the Half.com '176 patent, your opinion that they could—Half.com could avoid infringement of the '176 for an investment of a hundred hours at $25 an hour is based upon Dr. Maly's report; is that right?

A Yes, sir, that is correct.

Q And did you meet with Mr. Maly to discuss his opinion?

A No, I did not.

Q And are you aware of how that design around would occur?

A I'm aware only of what he wrote in his report.

Q Now, as I understand your background, you are an economist by background and trade, right?

A Yes, sir.

Q And as an economist, is it fair to say that you believe that most people would conduct themselves in accordance with their own self economic interest?

A That's a fair statement.

Q Now, do you understand, sir, that this litigation has been progressing since September of 2001?

A Yes.

MR. STILLMAN: 0J, could I get you to hand up an article to Dr. Wellman (sic).

BY MR. STILLMAN:

* * * *

[2573] BY MR. RANDALL:

Q Mr. Weinstein, you were asked a number of questions about your reliance on Drs. Wellman and Maly for their design-around opinions. Do you recall that?

A I do.

Q Let me read to you from Dr. Wellman's December 2002 report and ask you a couple of questions about this. Under the section design-around analysis for eBay, Dr. Wellman states, Notwithstanding the bases for noninfringement identified above, I believe that the eBay could have designed around the '265 patent, to avoid infringement, in the 14-month period between the assumed hypothetical negotiation for determining a reasonable royalty, i.e., July 2000, and the actual date by which the damages period began to run, i.e., September 2001. For example, all of the independent claims 0, 15 and 26 which have been directly asserted against eBay require a communications handler that detects and a predetermined posting terminal identification code and

verifies that the posting terminal apparatus is authorized based on that predetermined code.

Assuming for purposes of this analysis that the eBay cookie system and the eBay API system meet the communications handler recitation, a person skilled in the art could have designed around and avoided this recitation by, one, modifying the eBay source code to remove any inclusion of an /P address [2574] in the eBay cookies; and two, modifying the eBay API system to perform its authorization function based solely on a developer ID and certificate derived from that ID. Neither of these changes would result in any appreciable degradation in system performance.

In my experience, these modifications would have required no more than a hundred hours of work for the cookie system revisions and no more than another hundred hours of work for the API system revisions, totalling roughly 200 hours of work. In July 2000, the standard rate for such work would have been approximately $40 an hour, translating to $8,000 for the design-around implementation.

Under Half.com, given that the Half.com system uses essentially the same cookie system as does eBay, Half would have had the same design-around option as eBay in that regard, notwithstanding the basis for noninfringement discussed above. In my view, Half.com would have been able to effect such a design-around option by modifying its source code accordingly. As with eBay, I believe that this could have been accomplished in the relevant time period for no more than a hundred hours of work, at a standard rate of $40 per hour or $4,000. Such a change would be transparent to the user and would not result in any appreciable degradation in system performance.

Is that the opinion provided in Dr. Wellman's report that you relied upon, sir, with respect to the '265 patent?

[2575] A Yes, it is.

Q With respect to the '176 patent, you reviewed Dr. Maly's report, did you not, sir?

A Correct.

Q Let me read to you his provision with respect to this. Even if—

MR. STILLMAN: Excuse me. I'll stipulate that he laid all of these things. I don't think this is proper redirect, for him to read the reports into evidence. They iught to come through the witnesses who are going to testify so I can cross-examine then about that.

MR. RANDALL: What's important is the reasonableness of this witness' reliance on information that he relied on. He was cross-examined on this. I want to get on the table exactly whet he relied on.

THE COURT: Objection is overruled.

BY MR. RANDALL:

Q With respect to Dr. Maly, again, in his December report he states, Even if, for purposes of this report, Half-com's compare Our Prices feature were presumed to infringe as it presently operates, it is my opinion that acceptable noninfringing substitutes were available at the relevant time. For example, based on my review of the lialf.com system, a computer programmer could have ensured that the half.com Compare Our Prices feature followed the process taught in the

* * * *

[2592] briefs on summary motions and so on.

Q. - Based on your experience and the information you studied and relied upon and considered, do you have an opinion as to the validity of the claim of the '265 patent?

A. Yes, I do. The conclusion I've reached is that the claims of the '265 patent are not valid for obviousness over the prior art.

Q. Let's focus on the '265 patent.

MR. RANDALL: Can you put up Tab 2? I'm sorry, it's No. 34.

BY MR. RANDALL:

Q. Dr. Wellman can you—first of all, tell us what this slide is?

A. What that slide does is explain some of the key, the key terms that appear in the '265 patent claims as ruled by the Court.

Q. All right. Did you prepare this slide or was it prepared at your direction?

A. Yes. All the slides we have here today were prepared by me or under my direction and supervision.

Q. And could you just take us through this slide and tell us what some of the information is?

A. Sure. So the way it's organized, along the left we have a column that shows what claims have that language, what the language is and what they mean, and I'll focus on

* * * *

[2611] item, buyer number 2 decides to take delivery. So therefore, since it's in the physical possession of the consignment node in Chicago, it's going to open its safe and have the good shipped to Eugene.

Okay. And there we are.

Q Okay. Great.

Based on your description of the '265 patent's approach, whose responsibility in that system was it to take possession of the goods, inspect them, post them and vouch for the existence and accuracy of the goods' description.

MR. ROBERTSON: Objection, Your Honor. Relevancy. There's no approach. The claim is the final invention. There's not a "jist" or "approach" of the '265 invention. So the question's irrelevant.

MR. RANDALL: Well, I'm asking him, based on his study of the specification and the description of the inventions, what was his understanding as to whose responsibility in that system was it to do those things.

MR. ROBERTSON: That's my point. There's no system. There's a claim that defines the invention that the jury's going to need to determine.

THE COURT: He's studied the claims, hasn't he?

MR. RANDALL: Absolutely. But the point is, is that without the description—

THE COURT: I understand.

[2612] Objection's overruled.

A. It's my understanding that this would be the responsibility of the consignment node user to take physical possession and vouch for the existence of these goods for sale.

Q. Are you familiar with the NASDAQ stock exchange?

A. Certainly I am.

Q. And can you summarize the speculation feature that you described here with respect to the NASDAQ exchange?

A. Certainly. In securities exchanges exemplified by NASDAQ, one owns financial securities, but one rarely ever actually has, say, a stock certificate, but rather one entrusts that to the physical possession of a broker in a network of brokerages. And, in fact, suppose I have a stock, I own 10 shares of Microsoft stock and I want to sell it. I cannot take this, generally take this certificate within a NASDAQ system and just sell it to you if you wanted to buy it, but rather, I would have to go to my broker, who probably has a certificate or even just a record, an ownership record of that certificate somewhere, and place my order through that broker, who would then post it to the NASDAQ market where such financial securities are bought and sold.

Q. Have you ever heard of the '265 patent described as being similar to the NASDAQ stock exchange?

* * * *

[2653] Q Were there any prior art systems that did the same types of things that the '265 patent tried to d specifically?

A. Yes, there were. One that's particularly worthy of note is a system by Nahan that was developed for the, to develop electronic buying and selling of art, of fine art.

MR. RANDALL: Can you pull up No. 17, please?

BY MR. RANDALL:

Q. What's been pulled up on the screen—can you highlight the first portion of that—is a patent listing, among other folks, Ken Nahan as the inventor. The patent is entitled Computerized Multimedia Network Realtime Interactive Marketing and Transactional System. And it shows a filing date February 16, 1994.

Do you see that, Dr. Wellman?

A. Yes, I do.

Q. Are you familiar with the Nahan system?

A. Yes. I have reviewed it.

Q. Have you studied the Nahan system in forming your opinions?

A. Yes, I have. I've studied—

Q. Go ahead.

A. Excuse me. I've studied the patent description as well as various press reports and videos describing the system.

[2654] Q. What was the Nahan system generally?

A. Generally it was a system to enable art dealers to form a network for buying and selling of fine art pieces over networks.

Q. Based on your work and your review of the Nahan system, did you form an opinion as to whether the claims of the '265 patent are valid over the Nahan system?

A. Yes, I did. I've reached the conclusion that the claims of the '265 patent are invalid due to obviousness over the Nahan '111 patent.

Q. And what do you mean by obvious?

A. Well, if a claim is obvious, it cannot be patented and a claim is invalid. What that means is that any differences that there may be between the prior art system and the patented system would have been, it would have been obvious how to bridge those to somebody who was skilled in the art.

Q. And can you—you mentioned that you've seen video—strike that.

MR. RANDALL: Your Honor, I would like to move the Nahan '111 patent into evidence. I believe it's defense exhibit 607.

THE COURT: All right.

(Defendant's Exhibit No. 607 received.)

BY MR. RANDALL:

* * * *

[2714] other dealers. Each subscriber gets a McIntosh or PowerPC terminal linked by a private network to a central server in New York. Showing digitized color images on high-resolution monitors, the system presents the artwork in such detail that even the brush strokes are visible, says Douglas C. Scott, Honicorp's acting president.

What would one of ordinary skill in the art understand from this December 5, 94 Business Week article?

A Well, this is another source confirming some of the features of the Nahan system, and, in particular, it points out that the member dealers, the subscribers here, as part of their license agreement are given hardware and software by which to operate as nodes in this dealer network.

Q Was the Nahan system ever featured on national

television?

A Yes, it was.

Q And when was that featured on national television?

A It was featured-on the Today Show in September 1994.

Q September 1, 1994?

A September 1st of 1994.

Q Could you play—this is a demonstrative exhibit. Did you review this Today Show clip from September 1, 1994, sir?

A Yes, I did.

Q And did it—does it accurately demonstrate, at least in part, the operation of the Nahan system that is consistent [2715] with your understanding of the system?

A Yes, it does.

MR. RANDALL: Can you please play this tape?

(Whereupon, the tape was played for the jury.)

BY MR. RANDALL:

Q Dr. Wellman, is there any doubt in your mind that the '265 claims are invalid because of the Nahan reference along with, if necessary, the bar coding and camera art that we saw?

A I have no doubts.

Q In analyzing the Nahan system, did you ever prepare a claim chart that compared each claim of the '265 patent against the Nahan system?

A I did. I very thoroughly went through all of the claims and all the parts of the claims and laid that all out in comparison with the Nahan system and documented all that.

MR. RANDALL: Would you pull up number 38, please?

BY MR. RANDALL:

Q When I mention claim chart, what did you do with respect to preparing a claim chart? In answering the question, if you would just tell us what a claim chart is.

A Okay. Well, this is one page from the claim chart that appeared in my December report. What this does is for each claim—this is the claim chart for claim 1.

Q Why don't you go to 56 of this document. Okay. There you go. This is page 51. I'm sorry. 51 shows claim 26 up

* * * *

[2746] Q We already went through this, but the Gifford '785 patent, did you form an opinion about whether that includes terminal authorization?

A Yes. We discussed the Gifford patent yesterday that described several patent techniques, including those that are based on authentication, based on a network address.

Q Based on everything that you have reviewed and relied upon regarding the AMC system, did you form an opinion regarding the invalidity of the claims of the '265 patent based on that system?

A Yes. I concluded that the claims of the '265 patent are invalid over the AMC system for obviousness or anticipation.

Q Did you—in connection with your December 2002 report, did you prepare a detailed claim chart identifying all of the elements of the '265 claims and all of that language, and compare that with the evidence of the AMC system, specifically from the AMC patent, from the declarations supplied by Magliato and DiMaggio under oath, and from the depositions?

A Yes, I did. Just as we showed—just as I showed for the Nahan prior art, I created a detailed claim chart with respect to the AMC system that shows claim by claim how the art in the AMC system, possibly in conjunction with Gifford or other well known art at the time, would invalidate each claim due to obviousness or anticipation.

Q And was that claim chart some 21 pages long?

[2747] A Yes, I believe it was.

Q And did you—in creating that claim chart, did you identify specifically the evidence that you relied upon to

support your conclusion of invalidity as to claims 1, 4 through 5, 7 through 8, 10, 13, 15, 17 through 18, 20, 22, 23, and 26 as invalid because of the AMC system?

A Yes, I did.

Q And that was provided to opposing counsel with your December report; is that right?

A That's correct.

Q And is that also—did you rely also on your work in preparing that chart in forming and rendering your opinion that all of the claims of the '265 patent are invalid because of the AMC system?

A I'm sorry. What was the question?

Q Did you rely on your work in preparing that claim chart and in rendering your opinion that the '265 claims were invalid because of the AMC system?

A Did I rely on what?

Q Did you rely on your work that you performed—

A I'm sorry.

Q —in preparing that report?

A. Yes. Certainly I did.

Q Okay. I'm sorry. In preparing that chart.

A Yes.

[2748] Q All right.

MR. RANDALL: Could you pull up number 29?

BY.MR. RANDALL:

Q Now, can you please describe—we have gone through; I believe, the top part of this chart with respect to the Nahan, your opinions regarding the invalidity of the '265 claims due to Nahan. I'd like to address your attention to the bottom half of this chart, Dr. Wellman. Please explain what that is.

A Well, this is a parallel summary of the, claim chart that I prepared with respect to the AMC system that summarizes which claims are invalid, for what reason, using which prior art.

So this says is that—this row here says that claims 1, 2, 4, 5, 7 and 23 are invalid for anticipation by the AMC system, which means that the AMC system covers all of the elements of those claims.

Q By itself?

A By itself.

Q And the next row?

A The next row says that claims 8, 13, 15, 20, 22 and 26 are invalid for obviousness over the AMC system or alone, or alternatively, in combination with the Gifford patent related to transaction methods, online transaction methods.

The next row says that claims 10 and 17 are invalid for obviousness over the AMC system, or alternatively, the AMC [2749] system in combination with the Rose patent. That was the bar code patent, one of the bar code patents.

And finally, the last row says that claim 18 is invalid for obviousness over the AMC system, or alternatively, the AMC system in combination with the Nahan patent.

And, in fact, Dr. Wellman, are those your opinions with respect to the invalidity of the '265 patent claims relating to the AMC system that you have just' described?

A These are my opinions.

Q And is this chart, specifically the bottom half, a summary of the detailed claim chart element by element that you provided with your December report that you previously testified about?

A Yes, it is.

Q In reaching your opinion that the claims of the '265 patent were obvious, did you consider any other additional objective evidence that the claims were indeed invalid for obviousness?

A Yes. I considered some evidence based on arguments from the plaintiff's experts, Dr. Weaver, that said that the very success of the eBay system represented evidence that the '265 patent is not obvious.

Q Did you—based on your review of the prior art and of the patent and of this other information regarding eBay's success, did you form any opinion about whether eBay's success

* * * *

[2752] Half.com infringed the '265 claims?

A Yes, I was.

Q In forming your opinion with respect to eBay, what materials did you review?

A Well, I have—I'm familiar with the operation of eBay's system from being an eBay user since 1996. I have used my own knowledge of the field. I also reviewed some depositions of eBay personnel. I have spoken with eBay personnel. Of course, I have reviewed the materials presented by the plaintiff's experts.

Q Did you review production documents, including source code?

A Yes. I reviewed various source code and other software documentation and specification.

Q And, in fact, in forming your opinions regarding eBay's noninfringement of the '265 claims, did you rely on the production documents, including source code, the deposition testimony of eBay engineers, your review and study of the operation of the Web site, and your interviews of the engineers?

A Yes, I did.

Q And do you feel that you have—strike that. Based on your understanding of the operation of eBay through the information you reviewed and relied upon, do you have an opinion as to whether or not eBay infringes the '265 claims?

[2753] A Yes. My opinion is that eBay does not infringe any of the '265 claims.

Q With respect to Half.com, what materials did you study in forming an opinion regarding noninfringement by Half.com?

A I studied materials describing the software operation

of Half.com, including source code and specification materials. I also reviewed depositions of Half.com personnel and I have spoken with Half.com personnel.

Q Did you also review production documents?

A Yes.

Q All right. And did you, in fact, rely upon in forming your opinions regarding Half.com's noninfringement, did you rely upon in the production documents, including the source code, the deposition testimony of Half.com engineers, the operation of its Web site, and your interviews of the engineers?

A I did.

Q And based on that information that you reviewed and relied upon, did you form an opinion about whether Half.com infringes the claims of the '265 patent?

A Yes. My opinion is Half.com does not infringe any of the claims of the '265 patent.

Q Did you also review materials from a company called ReturnBuy to see if they infringed the '265 claims?

A Yes, I did.

[2754] Q And did you review and rely upon production documents, including source code, deposition testimony, and an interview of engineers of ReturnBuy?

A Yes, I did.

Q And based on your understanding of the information that you reviewed and relied upon regarding the ReturnBuy, did you form an opinion about whether or not ReturnBuy infringed the claims of the '265 patent?

A Yes. My opinion is that ReturnBuy does not infringe any of the claims of the '265 patent.

Q In forming your opinions with respect to noninfringement, did you review and rely upon Exhibit No. 34, which is an article by Lee Chae titled The Basics of E-mail Access?

A Yes, I did.

MR. RANDALL: Your Honor, I would move Exhibit 34 into evidence.

THE COURT: All right.

(Defendants' Exhibit 3 was received.)

BY MR. RANDALL:

Q In forming your opinions regarding noninfringement, did you also review Exhibit 270, which is a document also about how e-mail operates?

A Yes.

MR. RANDALL: I move 270 into evidence, Your Honor.

THE COURT: All right.

[2755] (Defendants' Exhibit 270 was received.)

BY MR. RANDALL:

Q Let me ask you for a moment about design-around issues. Are you familiar with that concept?

A Yes, I am.

Q I understand, as you stated to this jury, that you believe that neither eBay nor Half infringe the claims of the '265 patent. But assuming for a moment that there was infringement, and I know that you disagree with that, but assume for a moment that there was. Do you believe that there is anything that eBay could do to change its system such that you would eliminate one of the arguments that plaintiffs has asserted about infringement?

A That's right. To imagine that eBay is infringing, I would have to say, suppose hypothetically that one of their arguments was actually correct, how they have associated something that eBay does with the part of the claim that they do not practice. One of those elements was the terminal authentication or terminal authorization of a user. They have—

Q And with respect to that, you believe that the '265 claims require terminal authorization?

A That's correct.

Q Go ahead.

A That's correct. My understanding is that the plaintiffs [2756] have argued that the fact that the eBay cookie includes an ACP—an IP address, constitutes a use of a terminal specific authorization. My opinion is that eBay could quite simply remove the IP—the portion of .the IP address that they do include in that cookie, could remove that quite easily and thus design around the argument for infringement.

Q When you say quite easily that eBay could remove this IP address from its cookie, approximately how much time would it take to do that, and what, in ycur opinion, would be the cost to do that?

A I think it could be done in about a week of programming and testing, about 40 hours, that is; and so it would cost a few thousand dollars.

Q And what would that do to the removing this cookie, this IP address from this cookie? How drastically would that affect the overall performance and success of eBay?

A My opinion is that it would not affect at all. In fact, it's rather questionable whether they are gaining anything by including that IP address as IP authentication is quite reliable and not really even precise for the purpose they are applying it.

Q And with respect to eBay's use of API, what would your answer be with respect to that issue?

A They could similarly modify how they authenticate an API application so that it would not effectively uniquely identify [2757] the API application. That would be very—that would be similarly simple to accomplish, and would also not result in any degradation of their performance.

Q And what about Half.com? What could Half.com do with respect to eliminating one of the arguments that' plaintiffs is relying on?

A Well, I have actually not seen any evidence that Half.com does even those things. But if they did, then they could just as easily as eBay remove those elements.

Q Okay. Have you prepared a summary—by the way, do

you believe that the inclusion of an IP address in a cookie somehow authorizes a terminal to do anything on eBay? A

A No. On eBay, whenever some action is required, the user name and password must be presented; that is, a name and a password of a particular user, not of a terminal. Even when the cookie is presented, still nothing happens until the user name and password is read from that cookie.

Q So at any point in the operation of eBay's site, is the terminal alone authorized to do anything?

A No, it's not.

Q Have you prepared a summary chart of your noninfringement opinions with respect to the '265 patent?

A Yes, I have.

MR. RANDALL: Can you pull up 2), please?

BY MR. RANDALL:

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[2861] MR. RQBERTSON: I'm sorry, Your Honor.

THE CQURT: Okay.

MR. ROBERTSQN: But it's been the subject of testimony, and this witness has just indicated that he's familiar with the Get Item function call. I think I'm entitled to inquire.

THE CQURT: Just rephrase your question.

BY MR. ROBERTSQN:

Q. Are you aware, sir, that ReturnBuy utilizes the get item function call to request information about an Item and track it through eBay's system?

A. I'm not aware of the specific function calls that ReturnBuy uses. I Imagine they might use such function calls. I, however, do specifically believe that they do not use a tracking number, ReturnBuy or eBay, for any purpose based on specific testimony.

In fact, if I may continue, Hr. Scharer did explain how they do track it. They said that they include their own license plate number in the description field when then post an item For eBay. So when they get a notification from eBay saying that the auction is over or whatever, they can see the text of that license plate, their own number there, and use that for tracking the good.

Q. I want to shift to this discussion we've had about 5 the design-around that you provided an opinion with regard [2862] to. Are you familiar—do you remember that?

A. Yes.

Q: I understand it was your opinion that eBay could have designed around the '265 patent for approximately $8,000, correct?

A Correct.

Q. Okay. Who have you talked to at eBay about this design-around?

A. I didn't consult with anyone at eBay about that. I had examined the software specifications for the relevant parts of the code that would be involved.

Q. You are aware, however that eBay never adopted this proposed design-around that you identify for either the cookie or the application programming interface?

A. I was not proposing to eBay that they should adopt such design-around.

Q. It was your opinion, however, that this, if they adopted these design-arounds or if Half.com adopted these design-arounds it would have no degradation with respect to their operation? That they would be virtually seamless to the outside world?

A. There would be no significant degradation.

Q. Well, if in fact that was the case, that they could have adopted this design-around, in your view this [2863] simple and inexpensive, why do you think they didn't do it?

A. Well, it is not my position to propose legal strategies

to eBay, but it is my opinion that they're not currently infringing, and this design-around exercise was conducted under the assumption that a hypothetical—that an argument put forth by the plaintiffs for how somehow an eBay practice could be matched over to a '265 claim were actually true. If they had done that, I would not be surprised if another such argument put forth. I even just heard a new one in this session.

Q. $8,000 would have been a pretty cheap insurance policy for eBay to have implemented this design-around that you proposed months ago, or even a year and a half ago; isn't that right?

MR. RANDALL: Objection, assumes facts not in evidence, that that would be an insurance policy and we would not still be here, in suit, in court.

THE COURT: Sustained.

BY MR. ROBERTSON:

Q. Well, are you aware, sir, that designing around a patent after you've been accused of infringement is evidence of good faith on behalf of the accused infringer, which is relevant to the issue of whether or not the infringer is willfully infringing a patent?

A. I'm not aware of that.

[2864] Q. If eBay didn't implement this design-around that you have identified, then there would be no evidence with respect to design-around good faith that the jury could consider with respect to this issue of willful infringement that's before them, is there?

A. I have no idea whether there's any such evidence.

Q. Well, aso you sit here today, it is your understanding that this design-around you proposed wasn't adopted by eBay or Half.com, correct?

A. I doubt it was.

MR. ROBERTSON: All right. I have no further questions, Your Honor.

REDIRECT EXAMINATION

BY MR. RANDALL:

Q. Dr. Wellman, you said you spoke with Greg Scharer from ReturnBuy; isn't that right?

A. That's right.

Q. Did you, based on your discussion with him, did you understand him to be knowledgable about ReturnBuy's operation?

A. He appeared to me to e intimately familiar with all aspects of their operation.

Q. Hypothetically, if Mr. Shill, the former CEO of ReturnBuy testified that Greg Sharer was the Chief technology officer of ReturnBuy and knew the details of the

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[3348] Q. All right. They were aware of the fact that taking a trusted network like the ACORN network and putting it on the Internet would have been obvious, right?

MR. STILLMAN: Objection. Assumes facts not in evidence, Your Honor. There's been no testimony that the ACORN system was a trusted network.

THE COURT: Mr. Randall?

BY MR. RANDALL:

Q. Okay, the ACORN system was a trusted network, right?

A. I don't know.

Q. You have no idea?

A. I haven't studied the ACORN network in detail.

Q. The Nahan system was a trusted network, right?

A. It depends on your definition, obviously.

Q. I'm using your definition.

A. Well, there are certain elements of it that are trusted, and I think there are elements of it that are not.

Q. Sir, using the definition that you you've used in this case for trusted network, is the Nahan system a trusted network? Yes or no.

A. I don't think it has a yes or no, because I believe it has elements, some elements of trust and some that are missing.

Q. In rendering your opinion about whether one of

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[3447] at trial. However, it is clear to the Court that substantial questions exist as to whether the defendants infringe any of the asserted claims of the patent at issue.

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[3463] I meant to give you the one with—I don't have the clean copy with me, but it was previously produced.

THE COURT: Okay.

MR. RANDALL: So the way the instructions sit right now, there is an instruction regarding corroboration for prior art, there's not an instruction regarding corroboration if you attempt to get an earlier invention date.

THE COURT: Okay.

MR. RANDALL: The next issue is transfer of ownership. We submitted a instruction, very short, I think it's a sentence, on what is required for transfer of ownership. And right now, although the claims, specifically 8 and 15 of the '265, require transfer of legal ownership, there's no question about that, there is a dispute between the parties, apparently, on what is actually required for legal transfer of ownership. And we've presented the authority and the jury instruction on that issue. It is a straight legal issue. And I just, I think it would be confusing to the jury to have lawyers get up and argue about a straight legal issue. Now, here is the instruction that we provided earlier on transfer of ownership. It does, the first

page is the one with the authority, the second one is the clean copy.

And because we think it's a clear legal question, [3464] number one, and number two, because we think there's a clear answer to it, we think the jury ought to be so instructed.

And then the last issue was the verdict form, but I just, the specter of the lawyers getting up and arguing what is required or what's not required for legal transfer of ownership, I don't think should happen.

THE COURT: Do you want to respond?

MR. STILLMAN: I will respond to that last point, Your Honor.

This is nothing more than a reargument of Markman. I certainly agree that counsel should not be getting up and arguing what is required for a legal transfer of ownership. You've already construed the claims and you have made a determination that's the modification of the data record.

THE COURT: Some of the experts don't agree, but that's okay.

MR. STILLMAN: Well, I think they may not privately agree with you. But the point is that's the law of the case. I don't think anyone should be standing up and arguing that, pursuant to the UCC, ownership passes pursuant to some provision or whatever. I think that this is a Markman issue and I don't think it should be resolved again.

With respect to this other question regarding the filing dates, I haven't even read that. I understand that was something that was filed this afternoon? I'd like the

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[3477] closing arguments—I mean, you all were very good in your opening statements. I don't think there were any problems, if I remember correctly, in your opening

statements. But in closing arguments, as you know, you're supposed to argue what you believe the evidence was and you're supposed to argue what the law is with regard to that evidence, and hopefully for your sakes, make your case convincing so that the jury understands it.

And as I keep repeating this over and over again, this is not a who-went-through-the-red-light and who-had-the-green-light case. This is a much more difficult case. All the jurors can understand that. Or if this was a patent infringement case involving that stool, well, I would think that all the jurors could understand that, because they can see it. But they can't see this. These method patents are so—at least for me, and I'm sure for the jury, maybe not for you all, but for me they're very difficult to understand.

And you know, I had that Covad case where I granted summary judgment, and that was extremely difficult for me. I think that was the first patent case that I ever had. And you know, the Federal Circuit affirmed it, and I'm not saying it for that reason. But again, I had to learn this whole technology. And then I sat on the Fourth Circuit by designation and had to deal with the Telecommunications [3478] Act of, I think it's 1986, if I'm not mistaken. And it was the first case ever involved in the Fourth Circuit in that particular case. Fortunately Judge Michael was assigned to write the opinion.

But those types of cases, when you don't deal with them on a regular basis, are very hard for the judges. And I guess when I was a young lawyer I thought that judges knew everything and the lawyers didn't. But I can tell you one thing: In this particular type of case, that's not the case. I mean, I think I've been honest with you all from the very beginning, that patent is something that we certainly didn't deal in the state court, and I've had a few in the federal court system, and the Federal Circuit has been kind in those cases to me. But this is a difficult case.

So what I'm trying to say is this: When you all do give your closing arguments tomorrow—and I've given you your time limits and you know who goes in the order and the sequence you go—unless it's so terribly obvious, just don't object. There's no reason for it. It's—you know, Mr. Stillman's understanding of what he thinks the evidence is, and that's why I instruct the jury before your closing arguments, not that they're going to remember anything that I saw, that's certainly the case. They may remember some of the little instructions, but they're not going to remember [3479] the complicated instructions. That's why they're going to go in the jury room and deliberate. And Mr. Randall, when you argue, you're going to tell the jury what you think the evidence was and what the law is of the case, and you know, that's your argument.

So unless there's some outrageous statement that's made—with the quality of lawyers that we have in this case I don't expect that to happen—I really would rather—and I think it would behoove both of you to not stand up and start objecting in the middle of someone's closing argument. It doesn't do any good.

The jury was—I can tell you, just looking at the jury's faces yesterday when—and again, I'm not criticizing Mr. Randall—Mr. Randall is obviously an excellent lawyer and knows his case backwards and forwards, and he is goes into minutiae which he feels is appropriate, and certainly is appropriate in many instances. But the jury was getting kind of tired after a while of the cross-examination of the last witness.

I know you felt you had to do it, and I don't disagree with you that you had to do it. But all I'm saying is that they are ready to go back into the jury room and decide this case. And they know it's been contentious.

They weren't there—I wasn't there at the final pretrial, but I've certainly gotten a blow-by-blow at the [3480] final pretrial, and that was a bit contentious to say the least. But there's no point in the closing arguments being contentious. And I think it's only going to hurt your cases.

So if we had an inexperienced lawyer, for instance, getting up here and arguing and the lawyer didn't know what he or she was talking about, that would be one thing. But you all know what you're talking about. And you know, obviously Mr. Stillman has a different spin on this case than Mr. Randall does. Mr. Randall has a different spin on this case than Mr. Stillman does. So I just, it would behoove both of you not to get up and start objecting and objecting to something that's said in closing arguments.

I mean, I'm going to try to make it clear to the jury tomorrow that, you know, this is what I've already told them when I gave the preliminary instructions, that this is what, you know, Mr. Stillman thinks the evidence is and the law is the law. And if you—believe me, if you misstate the law as governed by the instructions, you're going to get burned for that. And I'm looking at both of you at this point.

So those are the instructions. We'll try to clean up the instructions so that the instructions are appropriate. Other than the, frankly other than the fact that we may have gotten a couple of claims wrong or [3481] whatever, some of the instruction objections are simply you just don't agree with the instructions. So it's not what I would consider such horrible error that, you know, some court would reverse on an instruction like that.

I just wanted to make sure that, you know, we didn't, the Court didn't make any terrible errors when it came to the claim numbers and things of that nature, and the law. And I think the law is pretty, pretty—when I say clear, I'm not sure it's so clear. But I mean I think it's pretty much set out.

And so I think that takes care of what we had to deal with this afternoon. We'll have a set of instructions for you all by nine o'clock tomorrow. They will be numbered. You've already addressed your objections as far as I'm concerned. And so I think you're covered under Rule 51. If you're not then, you know, you can deal with it. But I think you're covered under Rule 51. I think it's pretty clear as to where you all stand.

And I can tell you all now that it hasn't been the most fun four weeks that I've ever spent. I certainly know it hasn't been for the lawyers either. I certainly know it hasn't been for some of the witnesses, that's for sure. There's been some wiggling going on in this case that has been pretty interesting to watch. But I do have to say that both sides have prepared their cases admirably, and you all

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[3529] infringes claims 1, 5, 7—I'm sorry, 1, 5, 6, 29, 31, 32, and 34 through 39 of the '176 patent.

MercExchange contends that Half.com indirectly infringes claims 29, 31, and 36 through 39 of the '176 patent by inducing others to infringe.

You have the patents at issue, so there is no need for me to read to you the claims of both patents in this case, unless you want me to.

(Jurors shook heads.)

THE COURT: Okay. Instruction 28. Interpretation of claim terms for the '265 patent.

As I indicated, it is my job as the judge to interpret the terms of the patent claims. I have already done so and the following terms have been defined.

In addition, another general term that may appear in some of the claims of both patents-in-suit is the word plurality.

Plurality simply means the state of being plural or two or more.

1. Market for goods is defined as a trusted network or system where items or goods may be bought and sold.

2. Payment clearing means for processing a purchase request from said purchaser. This is a means-plus-function element. This term shall be construed as a computer system that accepts electronic payment information from a participant, such as a credit card number, e-number—

[3532] 11. Store said tracking number from the market for goods in said data record on said storage device. The tracking number is stored in the data record at the locally connected storage unit, where the local connection may be via a local network.

12. Printing a bar code from said tracking number on said bar code printer. The bar code is a printed form --excuse me. The bar code is printed from the tracking number which has been received from the market.

13. Binding offer for sale of said good. An obligation to sell the good, which is the ordinary meaning of the term.

14. Market apparatus. A market apparatus is a trusted network or system where items or goods are bought and sold.

15. Tracking number printer means slash tracking number scanner means. The tracking number is the one that has been received from the market.

16. Means for communicating to said market apparatus. This is a-means-plus-function element. The function to be performed is communicating to said market apparatus and the corresponding structures include a network card operating with a network software, a modem operating with a network software, and any equivalent structural equivalents thereof.

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[3534] This is a means-plus-function element. It should be construed to cover the following structures for notifying the posting terminal apparatus of the new ownership of the good for sale: An electronic mail system, FTP, which is a file transfer protocol, transmission systems, Internet transmission systems, private network transmission systems, and any structural equivalents thereof.

22. Communication interface. A system that enables communications.

23. Electronic market. A trusted network or system where participants can buy, sell, search or browse goods online.

24. Said notification module providing notification to the posting terminal apparatus in response to said transaction processor processing said purchase request and verifying said electronic payment information. A system that sends information that is received at the posting terminal apparatus after the purchase request is processed and the electronic payment information is verified.

25. Delay payment of said electronic payment or said goods for sale from the first owner to a second owner for a predetermined interval. Delay an electronic payment from the first owner to a second owner for a predetermined period of time.

Interpretation of claims for the '176 patent.

[3535] From the '176 patent, I have interpreted the following terms:

1. Electronic market. A trusted network or system where participants can buy, sell, search or browse goods online.

2. Item is defined as a good.

3. Electronic auction. A process over a trusted network or with a trusted intermediary, where participants can bid on

an item, where the process occurs electronically, such as over a computer.

4. Sequence of steps in claim 1. The limitation of claim 1 is to be performed in the order listed.

Sequence of steps in claims 26 through 39. The limitation of claims 26 through 39 do not need to be performed in the order listed.

I think I'll stop right now since we are on infringement, and we'll take about a 10-minute break.

(Whereupon, the jury departed the courtroom.)

THE COURT: You are right, Mr. Stillman, you may have to start by 1 o'clock. I don't know. We'll take 10 minutes.

(Court recessed at 11:45 a.m., until 11:55 a.m.)

THE COURT: Ready?

(Whereupon, the jury returned to the courtroom.)

THE COURT: Instruction 30. Patent infringement.

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[3636] didn't invent—and this is, something that sticks with you throughout a case, and this will always stay with me in this case—he didn't invent the notion or trusted notion that Dr. Frieder was talking about. He didn't invent encryption or user names and passwords. He didn't invent those things. What he thinks he invented, what he described or attempted to describe in his patent was a specific trusted network for handling goods. That's what he believes that he came up with. That's what he tried to describe in his patent.

And so it is a specific trusted network that he came up with. And a critical question about infringement is, do we practice that trusted network or not? And we do not. Absolutely we do not.

Can you show slide J, please?

I have to turn around or I have to read on this, and on I'm going to need some glasses, I think. But I'll read it.

In Mr. Woolston's trusted intermediary, as I mentioned during opening, that's his system in the middle, buyer and seller on each side, buyer and seller only have to trust the trusted intermediary. The trusted—the buyer deals only with the intermediary. It doesn't really matter about the buyer and seller's reputation. They will never communicate. The trusted intermediary takes possession of the goods, inspects the goods, and Mr. Woolston's system, [3637] that trusted intermediary, is the person that is controlling the posting. So no one can post goods on Mr. Woolston's system except for this trusted, licensed franchisee. Otherwise, you've got all kinds of people out there posting counterfeit goods, whatever. In his trusted system, he said trust the middle man. Trust this guy in the middle, this consignment node operator, and they will be the only ones that can post these goods. They will inspect them and make sure that they're of a certain quality. They will make sure that the description is accurate and they will actually have possession of those goods, so if you buy it, you'll know you get it. And if you buy it and want to sell it over again, you can sell it 'quickly, because it's just still sitting there. We'll just transfer the title over to the new buyer, and if they want to sell it, they will transfer the title over again, but that's what his system is.

He does not, his person is not a person-to-person system. It does not involve a system where the buyer and the seller have to rely on each other. They have to rely on each other that, if I send you the money, are you going to send me the good? If I send you the money, is the good going to be as you described it? And where are you going to send me the good? All these things about a person-to-person system, Woolston's trusted intermediary, trusted network, was trying to avoid that problem.

[3638] I asked their experts also, I believe I asked Palmer and

Weaver about whether or not, whether in Woolston's trusted network, whether the buyers and seller ever communicated, and they said no, I don't think they do. They don't. Throughout his patent what he talks about is those folks, they can't really trust each other. .People generally are not going to trust each other. Why would we have that? Just trust the middle man. And that's why that middle man has to be a trusted, franchised licensee of the hardware and software necessary to perform this system.

Now, the reason why he said—he tried to say or describe that he invented that concept. Mr. Woolston did not invent the concept, his concept that he claims, of a trusted network. You saw evidence from the ACORN network, you saw Perry Blankley, very colorful gentleman, you saw Jay Mintz as well.

And so Mr. Blankley had the idea, Jay Mintz coded the system, they were in Memphis, Tennessee, they started up in the early '80s. By 1986 they had a fully online, trusted network within Mr. Woolston's meaning. Fully online through CompuServe. And it was a method where, if you wanted to sell something, you would send in the good to Mr. Blankley, physically send it to him, you would email or electronically send your description of the good. It would be present on the system, but what Mr. Mintz said is it wouldn't be live. [3639] So it would be there on the system.

When the good got to the ACORN network, Mr. Blankley would inspect it. He would say is this the quality of good that I want to put on, is it priced reasonably, do I want to—is it the description accurate. And if so, it would go live on the auction. That's how it worked. That's the trusted intermediary. That's the trusted network that Woolston was talking about years later. Mr. Blankley did it years before he did.

Blankley had no reason to make up—did he fabricate all of that? No, of course not. And there are a number of exhibits

you can look at too, articles and so forth about the ACORN network. In fact, the Patent Office used the ACORN network a number of times to reject a number of Mr. Woolston's claims. Those exhibits that you can take a look at are 414, 415, 416, 26, and 47 through 49. All regarding the ACORN network.

Also, the Nahan network, that's a trusted system. You bring the artwork to a Nahan dealer, they inspect it, they take a picture of it, they code it, they put it on the system for sale, right? Same type of thing. When I asked Weaver is that a trusted network? He struggled. He said I don't know. I mean, I don't know how you, how you cannot know whether something is a trusted network or not. That's all—I'll get to this in a minute—but it's all part of [3640] property, right? Do you remember Dickinson said, and I believe Mr. Stillman said that you think of a patent like a' property right. Well, with respect to property, whether it's a patent or real property, land, you know what the boundary is. There's a boundary. You know what it is. Well, in patent law you have to know what that boundary is too. And you can't just make up, you cannot just make up some sort of a definition for trusted network. You can't come into court and say I'm going to make up a definition for trusted. network. I don't like what's in the patent, that doesn't work for me, I can't get infringement if I use that, so I'll just make up a trusted notion. If there's notions of trust, I can't ever apply it. I know eBay and Half does it, but I can't ever apply it to anybody else because I really don't know what the boundaries are.

Woolston couldn't give the boundary. Palmer couldn't. Weaver couldn't. Frieder couldn't. Not' one of their experts could tell me how do you know if you're inside a trusted network or outside? How do you know what is a trusted network, what's not a trusted network? They were-all over the map on that one.

Well, it's a trusted notion. There's notions of trust. Things like that. Well, if you have authentication, maybe, and user name and password. Well, those things, that's not what he talked about. In his patent he talks [3641] about a specific trusted network. We don't have it.

Now, I've gone through these over and over, but Mr. Woolston's system, he vouches for the goods' condition and availability. He ensures the good is accurately described. Sounds like ACORN. He takes possession of the good. In Woolston's system, trusted network, he controls posting of the good through licenses, franchisees, and he transfers legal ownership.

See, Mr. Woolston has to, in order to, in order to transfer the Ownership—remember I asked Weaver this? It's common sense. If you're going to transfer ownership of anything, you either own—you either own it yourself or someone has given you the right to transfer that ownership. There's just two ways to do it. I don't care if you're in the virtual world or not. There's two ways to do it. You either own it or you have, someone has given you the right.

In Woolston's system he claims—although he doesn't describe—he claims that there's a bailee relationship. There is a consignment. That means that the good is given to this consignment node owner through a bailee relationship or a consignment contract, and that means that the consignment node owner has the right to transfer title at a given price. He doesn't describe—and I guess that gets into other issues—but he doesn't describe any of the contractual terms that would be required

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[3645] to show you, but In his business plans, same thing. In his business plans, you can look at them, they're going to be back in the Jury room, they're at exhibit 352 and exhibit 93. And he consistent —and exhibit 352, he wrote that right at the

time he was filing his first patent application in April of '95. If you go to the back of that, there Is a garbled printout of the, of a file dated April '95. The I date on the business plan actually shows the date that It was printed. It has nothing. to do with when it was created. And Hr. Woolston said that when he testified.

He testified here that that business plan was from April of '95. And in the business plan he states, The I consignment node will be offered for sale as a franchise. Ho Individual or business may operate a consignment node without being a member of the franchise.

Says the same thing In the patent.

And these business plans, you can't run from them. You can't sag they're not true. These are business plans that you're going to present to people and try to get them to Invest. So what is It? Are you presenting something for people to invest that's not true? I don't think so. I think what he did Is he came up with business plans that matched the patent and, in fact, references his patents throughout the business plans. And they're consistent.

In his October 9, '96 business plan which Is

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[3652] don't do that. We don't infringe any of the claims. Any of them.

Let me talk about the '176 patent. No infringement regarding the '176 patent.

Can you show slide G, please?

And I'm going to go into other areas. But if that first area, if you agree with me, end of discussion. But I've got to lay out the additional arguments as to why we don't infringe. These are all additional arguments unnecessary if you agree with me on the first point.

All right. Here is the summary chart that we put up regarding non-infringement on '176. And I will walk through the argument while that's just sitting there. If you want to look at that, that's fine.

We don't infringe claims 1 and 29. And by the way, with respect to infringements, infringement, if you don't infringe the independent claims, then you don't infringe the dependent claims, all right? So I'm going to focus on the independent claims.

We don't infringe 1 and 29 for three fundamental reasons.

First, we only search a central database, all right? We've said that a number of times. But Half—strike that.

And this, by the way, this allegation is only [3653] against Half, it's not against eBay, all right? Half searches its own database. Its own database. A central database just like Dworkin. The Patent Office, when it looked at Mr. Woolston's patent for this search method on the '176, said we're rejecting all of your claims because of Dworkin. Woolston came back and said, well, I'm not searching a central database like Dworkin, I'm searching a plurality of them for an item. And if you think about it, that's what Woolston claims he was doing. He was searching a number of different consignment nodes or consignment stores for a particular item. That's what he was doing. In contrast, Half just looks in its own database.

Now, Balijepalli testified about that, that they looked in their own database for a good. Maly spoke with Balijepalli about that. Maly reviewed the source code, the documents, and he confirmed that that's what they do. When they search for an item, they search for it in their own central database.

Second. The third parties who provide their information to Half.com, they do it through an FTP file. An FTP file is just a file. Now, it doesn't matter—Balijepalli said a number of

times that that information from these third parties is provided to Half.com. You can say that's pushed to Half.com. It doesn't matter. It doesn't matter if it's pushed or if it's pulled or if it's [3654] scraped. It doesn't matter. It's not a search for an item. Those third parties provide all of their pricing information, they provide it, either they send an FTP file to Half or they put that FTP file with all of the information sitting there for Half to put into its database.

So I think Mr. Stillman said, well, how do they know? How do they know what to put out there? Well, Amazon or some other party puts what they want to put out there. They say, you know, I will give you what I want. I will take whatever prices, whatever information I want to appear on Half's, in your central database, Half, that's what I'll put out. Let me show that you animation for a minute.

Can you play the animation?

Can you speed it up a little bit? No?

MR. DAVIS: Manually want me to do it?

MR. RANDALL: Yeah.

There you go. Okay.

Okay, slow it down. Okay. So there we go.

This information, I don't care if it's being pushed or pulled, it's all of these files containing all of this information. It's not an item, it's a file of all of the information they want to provide to Half. It comes across the FTP. Doesn't matter if they pick it up or not. It gets stored in the central database at Half. Then it's available some later time for a search, okay? That's how [3655] it's done.

You remember the story about—and there is all the information color-coded. I think you all remember that.

Why is it done at night? I don't know. Because maybe there's less users at night. Doesn't mean that it's some secret

thing, it means that there's probably less traffic at night. Nothing nefarious about that.

Okay. You can stop that.

Now, you remember the story about Alexa, right? So let me just go back, and I think I asked Dr. Frieder about this, but if, for example, friends of ours provide these clothes that their girls have out-grown, they put them in a box, put them on their porch. They either drive them over to our house or we go pick up the box, it really doesn't matter, it's whatever they want to give us for Alexa to wear, they give us, it's all in this box. We either pick it up or they deliver it, it doesn't matter. It really doesn't matter if it's pushed or pulled, or we pick it up or they deliver it. But have we search their house? Have we searched their house for an item? If I pull out this cute little jumpsuit or pants or something like that, have we searched their house for that? Absolutely not. No, we haven't searched their house. They have made a collection of information available to us, Whatever they want. Happens to be clothes.

[3656] There's just no way—and use your common sense—there's no way that we perform that search for an item. We don't search that house for a particular jumpsuit or something like that for Alexa. It doesn't happen. It's not a search for an item.

So with respect to '176 infringement, you're going to hear, and I think you have heard, that one of the claims, I think it's 29, can be performed in either, either direction. You could go out and search for an item, pull it back and then the request could come in. But the point about Half is, they never—I don't care which order you want to put it in, Half never goes out and searches a plurality of electronic markets for an item. Never. The only thing that is ever performed is, just like Alexa's box of clothes that people put out in the FTP files: Third parties put a file, they either put it out for Half to pick

up or they send it to Half, it is a collection of lots of data, whatever they want to do. Half puts it in the central database, and at some later point when someone wants a search, then they search for an item in their central database just like Dworkin, all right?

So the other issue, and I said there were three reasons, is that there is insufficient evidence that these third parties are truly electronic markets. With respect to, I think that pr. Frieder said that AlBooks or Buy.com [3657] were electronic markets.

Can you show slide M, please?

All right. So if you recall, to be an electronic market I think you have to be able to buy, sell or browse. And so we asked him, Customers log on and sell items on Buy.com. Yes or no?

"I don't know for sure."

"Based on your study of AlBooks, can users like people in this courtroom log on to Al and sell on AlBooks yes or no?

"I don't know for sure."

He doesn't know. That's an element that he has to prove. He has to prove that you can buy and sell, and he's saying I don't know. So that's just another reason why there's no infringement of the '176 claims. There's no proof that these companies are actually electronic markets.

Also, can you go to slide N, please?

Okay. This is Balijepalli. I think you saw his video. We're not going to play the whole video, I promise you. But he was asked, Which leading online retailers does Half.com search in order to find out the prices they're charging for the item?

"The Witness: .We do not search online retailers.

"How do online retailers provide you with the pricing information?

[3658] "They send us a file.

"How do they send you the files?

"They FTP us the files and we FTP it from them." Can you go to the next one? This is from Dr. Frieder in the trial.

"So for example, if any one of these third parties send, in FTP format, send a file with information about their goods to Half.com, would you agree—"

And he says, "On their own?

"Would you agree that that's not a search, right?" And then he says: "If they just send it on their own, then it is not a search.

"And if they send it to Half.com pursuant to a request by Half.com, to send it periodically, that's not a search either, right?

"It's not a search."

That was on cross-examination. He admitted that exactly what Half does is not a search. And it's not a search.

Go to the next one.

Dr. Maly if you recall, testified, "Retrieval of items is not searching for an item, period." Very emphatic about this. Wasn't touched on cross on this issue.

"Retrieving, that is not part of the search process. Searching is searching, retrieving is retrieving, [3659] and the two don't mix."

All right. So for those reasons there is no direct infringement by Half of the '176. Period.

Let's talk about indirect infringement of the '176.

All right. Now, whether it's eBay or Half, they're both accused of indirect infringement of the '176. The arguments

are the same with respect to both of them. MercExchange is alleging that there are four other independent companies out there that infringe the '176: CNet, BidXS, Bizrate and MySimon. They claim that these, not only do these four third parties infringe the '176, but they're alleging that eBay and Half induced at that infringement.

Now, how do they know how these third parties operate? How does Dr. Frieder know how those four third parties operate? How does he know whether they're using a centralized search like Dworkin and Half? They collect all this data or all this data is sent to them, they put it in a central database, and when somebody wants it, they go grab it? How do they know if it's done that way or if it's done in this described method where they actually go out and search other databases for an item? How does he know that? He doesn't. He has no idea. And he can't possibly know.

Let me show slide P, please.

[3660] All right. So here's Dr. Maly on the left, this is in trial, trial testimony for both. Dr. Maly says.

"Again, the term searching, and this is very important point, this I can tell you as a scientist, you cannot judge what a system does, how a system does it, by looking it from the user perspective. I mean, it's like believing advertising on TV. Only the system itself, the actual code which controls the statement that tells you how it works. So the Web site wouldn't tell you how it works."

Now if you remember, one of the last things I did with Dr. Frieder when he was on the stand was I showed him the Nahan videotape, and I showed him the search and I showed him Bryant Gumbel picking out that outdoor sculpture piece, and it returning several different options for Bryant Gumbel. And I asked him, "So, I said how did this system, how did the Nahan system search for these outdoor sculptures of art?"

He says, "Based on this?

"Yes. Based on this video. Based on watching the system, how did it do it?

"I have no idea how he did it based on just purely watching the system."

Well, he's right. He has no idea. You can't tell. Remember Dr. Maly said he switched, I think CSTR to Dienst, he switched it from one system to the other [3661] overnight without anybody knowing it? You don't know. You have no idea. So Frieder didn't know either. And so for him to say that these four third parties, CNet, BidXS, Bizrate and MySimon, are searching, you know, for an item, all these other electronic markets, versus looking just in their own central database for information that was previously FTP filed to them, he doesn't know. He can't possibly know.

And in fact, MercExchange didn't give him any of the evidence to know. They didn't take any depositions of these folks, they didn't collect any documents from them, they didn't collect their source code, they had no engineering documents from these third parties, they didn't interview the years from these third parties. They did nothing except for Frieder says I played with their system. I looked at it. That's what he said. I looked at their system and I could tell by watching it. You can't tell by watching that. He said that with Nahan.

The other reason why there's no inducement or . indirect infringement is there's absolutely no evidence that either eBay or Half.com encouraged these third parties to search their competitors' sites. I mean, why would you want to do that? What would you want to say to any one of those third parties, great, go search our competitors and line up our prices with our competitors' prices. Why would you want [3662] to do that? You wouldn't want to do that.

So we're not encouraging them to do it, number one. And number two, whatever they're doing, they're doing it without our encouragement anyway. I think BidXS had hundreds of other sites that it searched? I don't know how it searches them, but it has hundreds of other sites that it searches. So is eBay encouraging it to infringe, or is it just going to infringe on its own, if that's their argument, that it's infringing, and if hypothetically it's infringing, is eBay encouraging it or are they just doing it on their own? They're doing it on their own. Same thing with Half.com.

If you have an agreement with somebody, does that mean that you're encouraging infringement? Absolutely not. There is no affirmative act that eBay is, or Half is pushing these third parties, encouraging them to do this. It just doesn't make sense.

All right. So for those reasons there is no direct infringement of the '176 by Half, and there's no indirect infringement by either eBay or Half.

Let's talk about—I keep turning back because I'm under a time constraint and I want to make sure I save a little bit of time, but—and who knows how long I'm going to go? But I do have an end time that the Court will enforce, I'm sure.

[3663] THE COURT: I don't have a gavel up here, but I. . .

MR. RANDALL: I know it.

THE COURT: But I will.

MR. RANDALL: All right. Non-infringement of the '265 patent.

Now, when I talk about non-infringement, we've already gone over the trusted network, so this is, these are just other reasons why we don't infringe.

Can you show slide E, please?

Trusted network is required by these claims by the

language, market for goods, market apparatus or electronic market. And I'm not going to go through why we don't infringe. I already covered all that with respect to both patents earlier on the trusted network issue.

Now, additional reasons why we don't infringe. There is no terminal authorization by eBay or Half.com. That's required by claims—and these are independent claims—claims 8, 15 and 26, okay? They require the detecting and verifying a predetermined posting terminal apparatus identification code. They require authorizing terminals as opposed to users. If you authorize users by a valid user name and password, it doesn't infringe. You have to, in order to meet this element of those three independent claims and all the dependents, you have to authorize terminals. And eBay simply doesn't do that. We don't [3664] have—neither eBay nor Half.

They don't have a list of, well, that's an authorized terminal and that's an authorized terminal, but that one over there is not, and that one over there is not. They don't have a list. Think about Woolston's system. He had a closed, trusted network. He knew who his trusted licensees and franchisees were. He had a code for them just like a Nahan. Nahan had a set of member dealers. They all had a specific code for their apparatus that was in their store. That is the authorized terminal. EBay doesn't do it. EBay, you can post, we said it over and over and over again, you can post it almost anywhere, you can post almost anything, and almost anybody can do it. You have to have a valid user name and password. That's what gets you authorized. That's the only thing that gets you a cookie.

They say, oh, you place this cookie on the thing? That's a user name and password. You don't get that, you can't get a cookie, without a user name and password. I don't care if they hash it, I don't care what they do with it. It's a user name and password.

The interesting question I asked some of these guys on cross-examination were, is the terminal, okay, is the terminal, if we logon from that computer right there, is that terminal ever authorized to do anything; to post, to list an item for sale on eBay, is it ever authorized to do [3665] anything before I put in a user name and password? That's their argument. Their argument is that terminal, that physical terminal get authorized. And it doesn't really matter whether it's by this API or whether it's not through the API. Both of them require a user name and password.

So is that terminal ever authorized to do anything if I don't use a user name and password? And the answer is no, it never is. Never.

Now, how do you get a cookie? If you log in a user name and password, it places a cookie on your machine. And why does it do that? So you don't have to log back on during—you know, you don't have to log back on your user name and password. So yes, it's a convenience, but it's not authorizing a terminal.

What is authorized and only authorized through eBay and Half.com's system is the user. That's it. There are no—otherwise, you know, where are all these unauthorized terminals in eBay? If their argument is true, that eBay does authorize terminals, there are certain terminals that are authorized, where are the unauthorized terminals hiding? Where are they? I don't—you know, that's just a non-sequitur. There are eBay authorized user names and passwords. They authorize people, users, that's it. That's what they do. They don't authorize apparatuses. Mom and dad can't use their user name and password on the [3666] same terminal. After Mom logs on, you would think that that's an authorized terminal. Dad can just come along, sit down... No. You need a user name and password. You can't do it that way. That's why the terminal's not authorized.

And Dr. Frieder, if you recall, Dr. Frieder, when I asked him those questions on cross, he said that user name and password I think was part of the trusted network or something and that enabled me to ask him questions about that? Even though he wasn't their witness on that subject. But he was a Ph.D at 22, I think. So I asked him the question about that, authorizing terminals. Does eBay ever authorize terminals, and he just said no, that's nonsense, no. It's me. They authorize me. I don't—the terminal doesn't buy, the terminal doesn't sell. The terminal doesn't do anything. It's me, Ophir Frieder.

So clearly he understood the issue that it's users that are authorized by user name and password, not terminals.

EBay and Half.com do not have the transaction processor that is required by the claims 8, 15 and 26 and all the dependent claims.

With respect to claims 8 and 15, the claim language itself specifically requires transfer of ownership, okay? This transaction processor transfers ownership. Says it transfers it by modifying a data record, but in any [3667] event, it transfers ownership. We've gone over this a number of times. EBay never, it doesn't own its goods and it doesn't acquire an ownership interest in the goods, doesn't have a consignment contract, doesn't have a bailment contract. It never acquires ownership of the goods such as it is in a position to transfer ownership. And in fact, it doesn't transfer ownership. The users transfer ownership. When the user transfers possession of a good, when you get the good and you've paid for it, ownership is transferred. EBay doesn't do it. EBay's not in a position to do it.

Tom Woolston's system was in a position to do it, apparently, through this consignment contract or a bailment contract. EBay's never placed in the position to do that. And it doesn't transfer ownership.

And when I questioned Dr. Weaver about that he ultimately said he doesn't have a clue on this issue. And he was uncomfortable about it, and I understand that he was uncomfortable because he is a technical expert and he's having to opine on transfer of legal ownership of a good and whether a system does that. He just frankly doesn't know. He has no idea. He doesn't know what the law is. He doesn't know that the transfer of ownership occurs when you transfer possession. He doesn't know that.

But in any event, at a foundational level, eBay doesn't own its goods and never acquires an ownership [3668] interest such that it can transfer it. So it doesn't transfer a good's ownership.

With respect to claim 26; I've got a few slides I'm going to walk through with respect to claim 26 about non-infringement.

Can you show Slide A?

All right. Here is the testimony from Dr. Frieder I believe about the terminal authorization. And it's at the transcript, 1697 through 1698.

"At no time during this logon process to use the eBay site to buy or sell is the terminal or computer authorized to do anything unless you have input a valid user name and password, correct?

"I cannot—I, Ophir Frieder, did cannot buy on Half.com until I have logged onto the system."

Then he goes on, I think goes on to say, "You were asking me does a computer buy or sell. I'm telling you the person buys and sells. So now you say, then you go through it again and you say, okay, the computer buys and sells. I told you no, the person is buying or selling. And the computer has never authorized, eBay or Half.com to do anything. The computer is not the person you are talking about that's buying or selling.

The person is buying or selling."

Dr. Frieder is confirming that it is—you have [3669] to logon, it is the person that's doing the buying and selling, it's the user name and password that's doing the buying and selling, not the terminal.

Go to the next slide.

And so with respect to claim 26, obviously the fact that we don't have a trusted network applies. We don't authorize terminal applies. Any one of these is sufficient to find non-infringement.

This is also Dr. Wellman's testimony. "Those claims all require authorization of terminals, and as I have described just before, eBay and Half do not authorize terminals. One can access and participate in the buying and selling, posting goods.or sale on eBay from any computer in the world that's connected to the Internet. This is in stark contrast with the systems like the '265 system or Nahan."

Go to the next slide.

All right. This was during, I think, the redirect of Dr. Wellman, and there was some suggestion that my summary slide was indirect or unsupported by the evidence, and in fact, it's precisely from the claim of the '265, claim 26.

"In this claim, claim 26, I'm looking at the claim language, it says, Said participant, and if said electronic payment verifies, then notify the owner of said good for [3670] sale by modifying a data record. Do you see that?

"Answer: Yes, I do.

"Does eBay or Half track who the owner of a good is?

"Answer: My opinion is that eBay or Half.com do not track ownership, and therefore it would not be possible for them to notify the owner of a good.

Does either eBay or Half notify the owner of said good by modifying a data record?

"Answer: No, they don't.

"Are you sure about that?

"Yes, I am."

That's the language straight out of claim 26. EBay does not notify the owner, doesn't notify the owner by modifying a data record. Doesn't track ownership.

Go to the next slide.

This is a question of Dr. Weaver. "Do you recognize there's a difference between being the person that lists an item for sale on eBay, like you and this baseball card, and the person that owned the baseball card, right?

"Answer: Yeah, I'm agreeing that they could be different.

"Question: And eBay doesn't-keep-track of the owner, right?

"Answer: Not as separate entity.

[3671] If you recall, that was questioning about Dr. Weaver's demonstration about sale of a baseball card. Dr. Weaver used his mother's account to sell a baseball card that neither he owned nor his mother owned. During his deposition he said that Hunton & Williams owned it, but on the trial, at trial he said he didn't know who owned it.

And I think I asked him about, how, who, how does eBay keep track of who the owner is. He doesn't know. Because they don't. They simply don't. How could they ever know who the owner of that baseball card is?' They don't. They don't keep track. They don't know, and they don't, certainly don't notify the owner of anything as required by claim 26.

Go to the next slide.

This is another issue. A notification module providing notification to the posting terminal apparatus. This is also in claim 26.

"Claims 8, 15—" I'm not going it read through all that. "But those claims require notification of a posting terminal. EBay and Half.com never notify a specific terminal. They may know notify users, and so therefore my opinion is that eBay and Half.com did not infringe those claims for this reason."

Claim 26 requires notification to the posting terminal. That was my questions with Dr. Frieder with him [3672] sitting in Europe at a posting terminal in a coffee shop. If he's sitting there conducting business or listing an item or bidding on an item, so forth, that terminal in the coffee shop in Europe is not going to be notified of anything. Whatever his email account, Dr. Frieder's email account, the notification will be sent to some Web server or some server, email server, somewhere, but it's certainly not going to be sent to that terminal in Europe in the coffee shop. No way. That's what's required by the claim. EBay simply doesn't do it.

Can you put up E again?

All right. So here's a summary slide that we put up during the direct, I think, of Wellman, and also that we've gone through right now. There is no direct infringement by either eBay or Half of any of the asserted claims because there's no trusted network. We don't authorize terminals, we don't have a transaction processor that transfers ownership as required by B and 15, we don't track ownership, and therefore we don't notify an owner of anything as required by 26. We don't send notifications to specific terminals. These are all reasons why we don't.

And in terms of indirect infringement, let me get to that and you can just leave this up.

There is a allegation that somehow there's encouragement of ReturnBuy to infringe. One of the things [3673] about ReturnBuy. Mr. Shill did testify. Mr. Shill on cross-examination, I went through a number of the elements of the claims, and I believe these are claims 1 and 23. One and 23 and their dependents. And I asked Mr. Shill if either eBay or Half encourages—or encouraged ReturnBuy to use storage devices, digital cameras, bar code scanners, bar code printers. I walked through a number of the elements of those claims and said do we encourage or induce you in any way to have used those. He said no. There's absolutely no evidence that we encouraged that.

Did we make an investment? Yes. Did we make a profit? No. They lost a lot of money. What does that prove? It proves that a system that takes in goods inventories them, takes possession of them, is very difficult to make any money on. I think I asked him why didn't you make a profit, and he said we had just too much structure, too much overhead. Couldn't turn a profit. Never did. So eBay made an investment, that's it. EBay doesn't encourage anything else. They certainly didn't encourage a number of the elements required by the claims. There's no indirect infringement whatsoever.

Also, ReturnBuy doesn't use the. I think the ReturnBuy testimony was that their software is what's called venue independent, okay? That's what Greg Scharer testified to. And of course Shill said on any technical issues you [3674] should refer to Scharer. You saw Scharer's testimony. He said the software is venue independent. And the software I believe is called—if I can find this. I'm not finding it.

In any event, what the software does, without any involvement, is decide which sites to list items for sale on. So ReturnBuy's software decides which sites to list them on, not eBay. EBay doesn't decide that.

Also, ReturnBuy uses what's called a license plate. They

have a facility in South Carolina that they handle all the goods at. They assign their own license plate. It's not a identification code or an item number assigned by the market. See, under their theory, they have to prove that there's an item number assigned, for instance by eBay or by Half.com, an item number that is sent to ReturnBuy and then is used by ReturnBuy with respect to that item. That's not what happens.

ReturnBuy uses its own license plate and its own license plate that's independent of eBay's item number. So it never receives an item number from the market. It never puts that in the data record. And so if ReturnBuy, for example, a customer asks ReturnBuy what's happening with one of my items, it's listed on eBay, what's happening with it, what they do is they did a search on eBay's site not for an item, they do a search for the license plate number of the [3675] good. And that's how they find it.

And so ReturnBuy uses its own license plate number for its goods in its South Carolina facility, and that's it. It doesn't use the item number with respect to the good.

And that's just what that point is, that ReturnBuy actually does not infringe because it doesn't use an item number from the market. It doesn't infringe. But also there's no inducement or encouragement to infringe, if you look at Shill's testimony on cross-examination.

Let me talk about damages for a minute.

MercExchange presented some staggering numbers regarding damages, and they're wrong for a number of reasons.

Gross merchandise sales. They used gross merchandise sales as a revenue base. There's no valid reason for using gross merchandise sales. All of the damages experts said that revenue is what's used. Evans and Troxel admitted that they have never used gross merchandise sales before. They have never seen it used. They're not sure what it comprises, what's

in it, what's out of it. There are no rules such as generally accepted accounting principles that govern gross merchandise sales. They perform no studies regarding its accuracy or its use. And in fact, in contrast to that, revenue is governed by generally accepted accounting principles. Revenue is [3676] required to be reported. -Revenue is required to be reported to the SEC and for IRS tax purposes. And he couldn't provide any evidence whatsoever to indicate that eBay or Half.com's revenues, revenue numbers are somehow manipulated in any way.

So if eBay's revenue numbers are not manipulate in any way, and he has no proof of that, how in the world can he tell that some gross merchandise figure that he doesn't even know much about and 'has never used is more reliable? He can't. He has no -basis to say that. None.

And in fact, I think Troxel even said with respect to ReturnBuy, in his report, I think you should use revenue and Troxel said in his report you should-use revenue for Return-Buy because ReturnBuy doesn't have gross merchandise sales. And then apparently he saw religion when, he came here, because he said, well, that was wrong. I should have used gross merchandise sales.

So how do you come up with gross merchandise sales for ReturnBuy? He reached it by multiplying 210 percent times revenue. Something like that. Wouldn't it just be simpler to use revenue? Of course it would. But they want to use a bigger number. They want to use a number that represents money that eBay and Half never see.

So gross merchandise sales means if there is a $250,000 Ferrari sold—and by the way, Weinstein said that [3677] there were pages and pages and pages of Ferraris on eBay. But if there's a $250,000 Ferrari sold, that money goes, 250,000 goes from buyer to seller. And under their theory—and this is, this is why it leads to absurd results under their

theory—Mr. Woolston gets a huge multiple of what eBay gets. EBay gets $80 and Mr. Woolston get a huge multiple of that.

So why are they using gross merchandise sales? Because it's a bigger number. It's money that eBay never sees. It's like taxing a bank for the deposits of all of the people that they have. All of the deposits, not revenue. But all of the deposits a bank has, let's just tax you on that, even though it's not your money. That's, that's not right.

Why did they use it? That's one reason, because it's a big number. They say that we use it in our reports. It's used—revenue is used and governed and regulated. They say that was used in the license agreements? It wasn't. We went through each of the license agreements. Gross merchandise sales was not used. It was a transactional fee collected or earned in nearly all of them. Collected or earned. That's revenue, that's not gross merchandise sales.

I think when I questioned their damages expert, Troxel or Evans, I think they said, well, it doesn't matter, [3678] they're just words.

The use of GMS also not only leads to absurd results with respect to the Ferrari and eBay Motors, which is a couple billion dollars in sales, but also under I think Troxel's theory, we showed that in the-year of this hypothetical negotiation, Half.com would have given up all of its profits and then some for three years to Mr. Woolston? That would have been a reasonable royalty, that they would just hand over all of their profits? EBay would have given up all of its profits in the year 2000 to Mr. Woolston? That was a reasonable royalty?

That's just not, that's not something that's reasonable. It's not something that anybody would agree to.

What did Weinstein say? Our damages expert? He said that—and this makes sense—that a reasonable royalty would be capped at what it would cost you to design around. So you

would only be willing to pay that which you could design around for. Because if you could design around for it, that's what you would do. You wouldn't pay that.

And so you've heard evidence and you haven't heard any contrary evidence to what would it cost, for instance on the '176, what would it cost to make sure that all we.do is search our central database; that we don't go out and search multiple electronic sites for an item. Well, we don't do that anyway. We don't do that. So what would it cost to [3679] make sure that that's what we do? It would cost very, very little. But it's a hypothetical.

But clearly searching a centralized database doesn't infringe.

The other design-around issue, if they say that using this IP address and a cookie infringes because it authorizes a terminal on the '265, what would it cost to take that IP address out? I think the estimate was $12,000. Very, very low. And the reason is because eBay doesn't authorize terminals. It just doesn't. Whatever they say authorizes terminals, taking that out, this ID code, means there would be no infringement and it would be about $12,000. So the cost of design-around is diminimous. Very, very low.

And if they say, oh, No, no, you need to remove the cookies, well, that's user name and password. That's not, that's not authorizing terminals.

All right. The other kind of thing that you think about in damages is the reasonable royalty should be less than the value of the entire company, I would think. MercExchange, if you recall, Mr. May testified about this, in May, I'm sorry—in I think October of 2000, which would have been a little bit after this hypothetical negotiation, in October of 2000, the board of directors or members of MercExchange got together and set the value of the entire [3680] company, and their assets are just these patents, at $50,000. And Mr. May said,

well, we just did that for tax purposes. Well that's, that's legally binding. When you say I'm doing it just for tax purposes, I'm doing it just what I'm reporting to the Government, that's your best—either you're committing fraud, either you're committing a crime or it's accurate. And we'll say that it's accurate. And so that's what they set the value at $50,000. And the damages wouldn't be any higher than that.

Lastly, I don't think that the evidence in Troxel took into consideration at all about the degree of infringement. If you assume infringement, they said even if you did it just one time in one year, we'd still be entitled to the whole $43 million or something. Just one transaction infringed, we would be entitled to that. That's just not right.

And Weinstein said no, no, you have to measure damages based on kind of what the infringing activity is. And Weinstein read the reports and deposition transcripts of Evans and Troxel and testified that they agreed, that they weren't seeking any damages for PayPal, they're not seeking any damage for PayPal. And based on that, if you take the transactions that used Billpoint—yeah, Billpoint is the other payment processor, if you will, but if you take the transactions using Billpoint, you come up with a damages [3681] figure of around $50,000. And so that's another method of getting there.

And then lastly, the damages experts did not take into consideration what eBay licensed patents for. Fox instance, this NES patent, which I'm sorry, I don't have the exhibit number with me, but you'll have it back there. But it's a patent to NES, and eBay took a license on that for about $250,000. And during trial we read through the abstract about that patent. And so that's another indicator of what kind of these things axe roughly worth.

The OnSale patent, you heard from Fisher and from Kaplan about OnSale and about their patents. They had three patents. Those were purchased outright—not a license, purchased outright fox something like $655,000. So those give you some sort of kind of a ballpark of what this, what the real value would be if these was infringement, but there's not.

The eBay meeting, I'm just going to briefly touch on that. If you recall, MercExchange contacted eBay because they wanted to do some horse trading. They contacted eBay. EBay asked for what's called power of inspection. Said that we'd like to go look at the Patent Office's files of all of your patent applications, and they said no. Can't do that. Mr. Woolston testified no, we didn't allow you to do that. They didn't send the prosecution files to eBay. They didn't [3682] do anything. What would eBay have found? Because this information is not public. All of the stuff that the Patent Office and everything that's going on is not public. What would they have found? They would have found all of the rejections based on all this prior art. They would have found the Nahan patent and other patents and all these rejections.

And at the time of this meeting, the. '176 had not issued. Woolston admitted in the Wall Street Journal and admitted on stand that, at the time of this meeting, there was no infringement of the '265 patent. So the only evidence in the record is that they wanted to horse trade, they had nothing to offer, they wouldn't allow any inspection of the prosecution histories.

And by the way, I think there was a suggestion that there's bad faith on eBay's part? MercExchange had already decided to sue eBay. They decided in—and this came out through, I think, Mr. May and Mr. Woolston—but they had already decided to sue eBay in January. There's an agreement, and it's in evidence, in January of 2000. They had decided to sue eBay. They again reiterated that desire in the summer of 2000. And then they have this meeting and they never in any

of the correspondence leading up to the meeting or after the meeting, there's no suggestion that they want to sue eBay? So who is acting in bad faith? And [3683] eBay doesn't find out about their true intent until they're sued, complaint's filed here in court here in Virginia? That's not good faith.

All right. Let me talk about validity for a few minutes.

There's two basic validity issues with respect to the patents, of one is what's called section 112. And section 112 is you have to provide and get adequate written description of what you claimed, and you also have to provide a sufficient description to allow one of ordinary skill in the art to build, actually build your invention. And those are two requirements that are related to this deal that you make with the United States government that you'll get a patent, but you have to advance the art, you have to enable other people to build it, you have to adequately describe it and show that you are in possession of your invention.

And the other is prior art. And we've gone through a lot of prior art in this case.

All right. With respect to the '176 patent, section 112 invalidity. Number one, there is no—Mr. Woolston does not enable, did not enable the '176 patent claims. If you recall, Dr. Keller testified about what was required to enable one of ordinary skill in the art to practice those claims, and he said that there was no

* * * *

[3707] We got here because essentially eBay wanted the court to define the term electronic market. And ultimately, the court made a determination in its Markman ruling that an electronic market—you will remember that the preamble to these claims talk about electronic market comprising—that an electronic market is, in fact, a trusted network or system where one can buy, sell or browse for a good online. So that's

the definition that the court has applied to electronic market. The real question here is whether or not you find that eBay is a trusted network or system as described by the patent.

And so there were questions asked of experts in this [3708] case, well, when are you within the domain of eBay—of Mr. Woolston, actually, the '265 trusted system, and when you are not. Well, the answer is if you are operating a system which employs the trusted features that are described in the patent, then you are.

And what are those trusted features? If you go back and you look at the description, you will see encryption, you will see intermediated payment, you will see the use of password protection, you will see authenticating the user. All of those elements are described in the '265's trusted network or system. And so there is no question to our mind that eBay employs all of them. Indeed, they employ many more to achieve trust over their system that are described in the Woolston patent, but the basic elements are there. And none of those elements, when you go back and you look at the claims of the '265 patent, require that this trusted system take possession of the goods, that require that this trusted system vouch for the quality of the goods. All of the elements necessary to prove a trusted system are present

* * * *

[3711] look at how the court defines the word transaction processor. The court has said, quote, a transaction processor is a processor for executing a transaction based on a request and payment from the participant. There is no mention in that definition about transfer of ownership.

But even if you construe the term to include some requirement for transfer of ownership, what has the court told you? The court says, quote—and this is in your instruction—legal ownership of the good is transferred by modifying the data record of the good. This is not the situation where you

are transferring legal title. It does not require Dr. Weaver to be an expert on the law of UCC to explain to you when legal title transfers. And, in reality, when you go to the mall and buy a sweater, I don't think you think much about legal title to that sweater. You buy the sweater and you get a receipt for it. And in this case, when you buy a good over the eBay system, there is a modification to the data record which essentially notifies the market that that good has been sold. There is no requirement that legal title in that formal sense be transferred, and by the same token, there is no requirement that this trusted intermediary therefore have some physical possession of the good. Now, finally, with respect to the '176, as I indicated to you, I think there is one central difference

* * * *

Supreme Court, U.S.
FILED
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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff,

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

DEFENDANTS' SUPPLEMENTAL PROPOSED JURY INSTRUCTIONS.

Pursuant to Local Rule 51, and in view of the evidence received to date, defendants eBay and Half.com submit the following supplemental proposed jury instructions to the Court.

Dated: May 2, 2003

Respectfully submitted,

By:/s/ Robert W. McFarland

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148. "TRUSTED NETWORK" OR "TRUSTED INTERMEDIARY."

You have heard testimony at trial regarding the *Markman* order and the "trusted network" and "trusted intermediary." The Court's *Markman* Order addressed these terms as follows:

> Through the examples in the specification, the inventor did not disclose a person-to-person transaction. Everything disclosed in the patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. The patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary.
>
> The inventor envisioned a trusted network to avoid the problems of early Internet transactions. The trusted aspect of his invention was not merely a preferred embodiment, it was the focus of his invention. Therefore, for the reasons stated above, the court finds that the market for goods is a trusted network where items or goods may be bought and sold. Similarly, a market apparatus is a trusted network or system where items or goods are bought and sold.*

---

* AUTHORITY: October 18, 2002 *Markman* Order and Opinion at 12-13, 45-46.

149. TRANSFER OF OWNERSHIP: SALE OF GOODS.

For the sale of goods, "[u]nless otherwise explicitly agreed title passes to the buyer at the time and place at which the seller completes his performance with reference to the physical delivery of the goods."[†]

[†] AUTHORITY: Specht v. Netscape Comm. Corp., 306 F.3d 17, (2d Cir. 2002) ("There is no doubt that a sale of tangible goods over the Internet is governed by Article 2 of the UCC."); U.C.C. §§ 2-102, 2-401(2); VA. CODE §§ 8.2-102, 8.2401(2); CA. COMM. CODE §§ 2102, 2401(2)

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed May 27, 2003]

Case No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., and HALF.COM, INC.,
Defendants.

SPECIAL VERDICT FORM

VERDICT

We, the jury, unanimously find as follows:

I. INFRINGEMENT

A. Direct Infringement of '265 Patent by eBay, Inc.

1. Do you find that MercExchange has shown by a preponderance of the evidence that operation of eBay, Inc.'s systems infringes any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 8 (independent)	YES ✓	NO __
Dependent Claim 10	YES ✓	NO __
Dependent Claim 11	YES ✓	NO __

Dependent Claim 13	YES ✓	NO __
Dependent Claim 14	YES ✓	NO __
Claim 15 (independent)	YES ✓	NO __
Dependent Claim 17	YES ✓	NO __
Dependent Claim 18	YES ✓	NO __
Dependent Claim 20	YES ✓	NO __
Dependent Claim 21	YES ✓	NO __
Dependent Claim 22	YES ✓	NO __
Claim 26 (independent)		

B. Direct Infringement of '265 Patent by Half.com, Inc.

2. Do you find that MercExchange has shown by a preponderance of the evidence that operation of Half.com, Inc.'s systems infringes any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 8 (independent)	YES ✓	NO __
Dependent Claim 10	YES ✓	NO __
Dependent Claim 11	YES ✓	NO __
Dependent Claim 13	YES ✓	NO __
Claim 15 (independent)	YES ✓	NO __
Dependent Claim 17	YES ✓	NO __
Dependent Claim 18	YES ✓	NO __
Dependent Claim 20	YES ✓	NO __
Dependent Claim 22	YES ✓	NO __

Claim 26 (independent)	YES ✓	NO __
Dependent Claim 27	YES ✓	NO __
Dependent Claim 29	YES ✓	NO __
Dependent Claim 28	YES ✓	NO __

C. Direct Infringement of '176 Patent by Haff.com, Inc.

3. Do you find that MercExchange has shown by a preponderance of the evidence that operation of Half.com, Inc.'s systems infringes any of the following asserted claims of the '176 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 1 (independent)	YES ✓	NO __
Dependent Claim 5	YES ✓	NO __
Dependent Claim 6	YES ✓	NO __
Claim 29 (independent)	YES ✓	NO __
Dependent Claim 31	YES ✓	NO __
Dependent Claim 32	YES ✓	NO __
Dependent Claim 34	YES ✓	NO __
Dependent Claim 35	YES ✓	NO __
Dependent Claim 36	YES ✓	NO __
Dependent Claim 37	YES ✓	NO __
Dependent Claim 38	YES ✓	NO __
Dependent Claim 39	YES ✓	NO __

D. Inducement to Infringe '265 Patent by eBay, Inc.

4. Do you find that MercExchange has shown by a preponderance of the evidence that eBay, Inc. has actively induced RetumBuy to infringe any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 1 (independent)	YES ✓	NO __
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES ✓	NO __
Dependent Claim 7	YES ✓	NO __
Claim 23 (independent)	YES ✓	NO __
Dependent Claim 24	YES __	NO ✓

E. Inducement to Infringe '265 Patent by Half.com, Inc.

5. Do you find that MercExchange has shown by a preponderance of the evidence that Half.com, Inc. has actively induced others to infringe any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓

F. Inducement to Infringe '176 Patent by eBay, Inc.

6. Do you find that MercExchange has shown by a preponderance of the evidence that eBay, Inc. has actively induced BidXS to infringe any of the following asserted claims of the '176 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓

G. Inducement to Infringe '176 Patent by Half.com, Inc.

7. Do you find that MercExchange has shown by a preponderance of the evidence that Half.com, Inc. has actively induced CNET, BizRate, or mySimon to infringe any of the following asserted claims of the '176 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

II. WILLFULNESS

8. If you have found that eBay, Inc. has infringed or induced infringement of at least one claim of the '265 patent, do you find that eBay, Inc. willfully infringed the '265 patent? (A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc.)

YES ✓ NO __

9. If you have found that Half.com, Inc. has infringed or induced infringement of at least one claim of the '265 patent, do you find that Half.com, Inc. willfully infringed the '265 patent?

(A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc.)

YES ✓ NO __

10. If you have found that eBay, Inc. has infringed or induced infringement of at least one claim of the '176 patent, do you find that eBay, Inc. willfully infringed the '176 patent? (A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc.)

YES ✓ NO __

11. If you have found that Half.com, Inc. has infringed or induced infringement of at least one claim of the '176 patent, do you find that Half.com, Inc. willfully infringed the '176 patent?

(A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc.)

YES ✓ NO __

INSTRUCTION: CONTINUE TO NEXT PAGE

III. VALIDITY

A. Anticipation of '265 Patent Claims by a Single Prior Art Reference

12. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid due to anticipation because all of the elements of the claim are found in a single prior art reference? (As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent. Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓
Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓

Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

B. Anticipation of '176 Patent Claims by a Single Prior Art Reference

13. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent is invalid due to anticipation because all of the elements of the claim are found in a single prior art reference? (As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓

Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

C. Invalidity of '265 Patent Claims Due to Obviousness

14. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid due to obviousness?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓
Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓

Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

D. Invalidity of '176 Claims Due to Obviousness

15. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent is invalid due to obviousness?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓

Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓
Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

E. Invalidity of '265 Patent Claims Due to Lack of Written Description

16. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid because the patent fails to convey that the inventor was in possession of the claimed invention at the filing date?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓

Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

F. Invalidity of '176 Claims Due to an Insufficient Written Description

17. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent are invalid because the patent fails to convey that the inventor was in possession of the claimed invention at the filing date?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓
Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

G. Invalidity of '265 Patent Claims Due to Lack of Enablement

18. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid because the patent fails to enable a person of ordinary skill to make or practice the claimed inventions without undue experimentation?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.Com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the

independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓
Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

H. Invalidity of '176 Claims Due to Lack of Enablement

19. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent are invalid because the patent fails to enable a person of ordinary skill to make or practice the claimed inventions without undue experimentation?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓
Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓

Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

IV. DAMAGES

20. If you have found at least one claim of the '265 patent infringed by eBay, Inc. and not invalid, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $10,500,000

21. If you have found at least one claim of the '265 patent infringed by Half.com, Inc. and not invalid, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $14,500,000

22. If you have found at least one claim of the '176 patent infringed by Half.com, Inc. and not invalid, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $4,500,000

23. If you have found that eBay, Inc. has induced infringement of at least one valid claim of the '265 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $5,500,000

24. If you have found that Half.com, Inc. has induced infringement of at least one valid claim of the '265 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $0

25. If you have found that eBay, Inc. has induced infringement of at least one valid claim of the '176 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT _____

26. If you have found that Half.com, Inc. has induced infringement of at least one valid claim of the '176 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT _____

INSTRUCTION: CONTINUE AND SIGN VERDICT FORM

You each must sign this Verdict Form.

Dated: May 27, 2003

/s/ KATHLEEN G. EVANS
Kathleen G. Evans
FOREWOMAN

/s/ PATRICIA A. SIMPKINS
Patricia A. Simpkins

/s/ LINDA R. MORTON
Linda R. Morton

/s/ LATISHA J. RICKS-GUITY
Latisha J. Ricks-Guity

/s/ CONNIE C. GALLACHER
Connie C. Gallacher

/s/ JUANITA GODFREY
Juanita Godfrey

/s/ DONNA A. GREGORY
Donna A. Gregory

/s/ ELIZABETH CURREY
Elizabeth Currey

/s/ LILLIAN MAY A. BRIGGS
LillianMay A. Briggs

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,

Defendants.

JURY TRIAL DEMANDED

PLAINTIFF MERCEXCHANGE, L.L.C.'S BRIEF IN SUPPORT OF MOTION FOR ENTRY OF A PERMANENT INJUNCTION ORDER

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STATUTES

35 U.S.C. § 283 1

I. INTRODUCTION

Plaintiff MercExchange, L.L.C. ("MercExchange") respectfully moves that the Court enter an order of permanent injunction pursuant to 35 U.S.C. § 283 based upon the jury's finding of infringement by eBay, Inc. ("eBay") and Half.com, Inc. ("Half.com"). The essential right of a patent holder is to exclude others. Thus, an injunction is now appropriate and required in order to preserve MercExchange's rights as a patentee. Injunctions are normally entered as a routine matter in patent cases after a finding of infringement, and the Court should enter a permanent injunction forthwith in order to halt any further infringement.

The jury has spoken now and determined that eBay and Half.com collectively infringed 41 claims of two patents legally and duly issued to MercExchange. In each and every instance, the jury found that that infringement was willful. Furthermore, the jury was asked 152 times to render each and every one of the asserted claims in U.S. Patent Nos. 5,845,265 and 5,085,176 invalid. In each instance, they answered with a categorical "NO."

Accordingly, MercExchange would respectfully request that the Court grant MercExchange's motion for a Permanent Injunction Order.

II. ARGUMENT

A. The Legal Standard For Entering A Permanent Injunction

With the jury's finding of infringement of valid claims, MercExchange requests that the Court enter an order of permanent injunction pursuant to 35 U.S.C. § 283 to prevent any further infringement of MercExchange's property rights. Permanent injunctions in patent cases are authorized under 35 U.S.C. § 283, which provides that federal courts "may grant injunctions in accordance with the principles of equity to

prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. Although 35 U.S.C. § 283 provides that the district court must exercise its discretion in determining whether to enter an injunction, permanent injunctions are typically entered after a patent owner prevails on the merits. *See Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989) (reversing district court's denial of permanent injunction, and stating "Infringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property . . . It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it"); *W. L. Gore & Assoc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("injunctive relief against an adjudged infringer is usually granted . . . an injunction should issue once infringement has been established . . ."); *see also Bose Corp. v. JBL, Inc.*, 112 F. Supp.2d 138, 170 (D. Mass. 2000) ("Entry of a permanent injunction is usually granted following a finding of infringement"); *Westvaco Corp. v. Int'l Paper Co.*, 23 U.S.P.Q.2d 1401, 1425, 1991 W.L. 290676 (E.D. Va. 1991), *aff'd in part, rev'd in part*, 991 F.2d 735 (Fed. Cir. 1993) ("Injunctive relief is generally appropriate once a case of infringement has been established.") (citing Richardson, 868 F.2d 1247).

Indeed, no "sound reason" counsels against injunctive relief in this case. *See In re Mahurkar Patent Lit.*, 831 F. Supp. 1354, 1397 (N. D. Ill. 1993), *aff'd*, 71 F.3d 1573 (Fed. Cir. 1995) ("The burdens an injunction will impose [on the defendant] do not differ from those other infringers experience when told that they must change or abandon a product."). The district court in that case elaborated on the policy reasons favoring an injunction, even if an appeal of the verdict is pending or anticipated:

> A patent conveys the right to exclude others from making, using, or selling the invention, and this right implies

> the propriety of an injunction enforcing exclusivity. The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations—whether they end in a license at a particular royalty or in the exclusion of an infringer from the market—is much preferable to a judicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy.
>
> . . . .
>
> [The defendant] contends that I should not issue an injunction (or should stay enforcement of any injunction) because the Federal Circuit is going to reverse my decision. . . . Every unsuccessful litigant has hopes of triumph in the next tribunal, but this line of reasoning would keep the victors from savoring the fruits. . . . I shall enter the injunction, and I will not stay that injunction pending appeal.

In re Mahurkar Patent Lit., 831 F. Supp. at 1397 (citations omitted).

In fact, it would be contrary to the maxims of property law to deny MercExchange its fundamental and statutory right to exclude now that the infringement has been adjudged. *Richardson*, 868 F.2d at 1246-47.

Moreover, even in cases where an infringer has ceased the infringing activity, this is not a sufficient reason for denying an injunction against future infringement unless the evidence is very persuasive ~~that further~~ infringement will not take place. *W. L. Gore*, 842 F.2d at 1281-82 ("The argument in such circumstances is very simple. If the defendant be honest in his protestations an injunction will do him no harm; if he be dishonest, the court should place a strong hand upon him. . . . '") (citing *Gen. Elec. Co. v. New England Elec. Mfg. Co.*, 128 F. 738 (2d Cir. 1904)). But, of course, in this instance, neither eBay nor Half.com has ceased the infringing activity.

The factors relating to entry of a permanent injunction were thoroughly reviewed in the case-of *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 106 F. Supp.2d 696 (D. N.J. 2000). The court granted a permanent injunction after a patent was found valid and infringed at trial, and denied a stay pending appeal even though the accused product involved a public health matter, specifically, a veterinary vaccine. *Id.* at 700-708.

The *Boehringer* court stated that it should consider the equities of:

> (1) whether the patentee would be irreparably harmed without an injunction;
>
> (2) whether the patentee had an adequate remedy at law;
>
> (3) whether granting the injunction was in the public interest; and
>
> (4) whether the balance of hardships favored an injunction.

Id. at 700-01; *see also Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp.2d 785, 794 (E.D. Va. 1998), *aff'd* 185 F.3d 1259 (Fed. Cir. 1999) (citing *Weinberger v. Romero-Barcello*, 456 U.S. 305, 312-13 (1982)). As the court observed, "a 'court should not be reluctant to use its equity powers once a party has so clearly established its patent rights.'" *Id.* at 701 (citing *Smith Int'l v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983)). In analyzing the manner in which a district court should apply these factors, the court's analysis makes evident that a permanent injunction is appropriate in this case.

1. An Injunction should be Entered based upon the Jury's Verdict of Infringement

Here, the jury has returned a verdict of infringement of 41 valid claims. Defendants cannot suggest any sound reason to deny MercExchange injunctive relief. Accordingly, the Court should enter an order of permanent injunctive relief.

2. The Jury's Determination of a Reasonable Royalty does not Constitute Grounds to Deny Injunctive Relief

"A permanent injunction is designed to prevent future infringement, while damages are awarded as compensation for past infringement. *Trans-World Mfg. Corp. v. Al Nyman & Sons*, 750 F.2d 1552, 1565 (Fed. Cir. 1984). Thus, the determination by a jury of reasonable royalty damages for a patent does not warrant denial of injunctive relief, because it simply does not cover future use of infringing systems. The jury's determination of reasonable royalty damages for past infringement is no ground to deny MercExchange an injunction against future infringement.

B. The Balance Of Hardships Weighs Heavily In MercExchange's Favor

MercExchange has no alternative but to preclude further infringement of its intellectual property rights through a permanent injunction. Absent such an injunction, the value of MercExchange's rights will continue to be diminished by continued infringement, and MercExchange will suffer the hardship of being denied its fundamental right under the patent laws to exclude others from practicing the invention. *Ortho Pharm. Corp. v. Smith*, 15 U.S.P.Q.2d 1856, 1863, 1990 W.L. 18681 (E.D. Pa. 1990) ("A compulsory license, which may arise from a refusal to enjoin, is fundamentally at odds with the right of exclusion built into our patent system.").

Neither would the fact that a defendant may suffer economic harm significantly weigh in its favor. As the Federal Circuit has stated: "[o]ne who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected." *Windsurfing Int'l v. AMF, Inc.*, 782 F.2d 995, 1003 n. 12 (Fed. Cir. 1986); *Sealed Air Corp. v. Int'l Packaging Sys., Inc.*, 5 U.S.P.Q.2d 1001, 1023, 1987 W.L. 44350 (E.D. Va. 1987) (same).

C. MercExchange Will Suffer Irreparable Harm Unless An Injunction Is Entered, And MercExchange Has No Other Adequate Legal Remedy

Based on the jury's verdict of infringement, it is presumed that the continued infringement causes MercExchange irreparable harm. *Richardson*, 868 F.2d at 1247 ("In matters involving patent rights, irreparable harm has been presumed when a clear showing has been made of patent validity and infringement." (citing *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983)). Again, the Federal Circuit has stated, "[t]his presumption derives in part from the finite term of the 'patent grant, for patent expiration is not suspended during litigation, and the passage of time can work irremediable harm." *Richardson*, 868 F.2d at 1247.

Thus, a patentee is entitled to a presumption of irreparable harm when there is a clear showing of validity and infringement, which is "[w]ithout a doubt . . . satisfied where those issues have been tried and the fact-finder has determined that the patent in question was infringed and is not invalid." *Boehringer Ingelheim*, 106 F. Supp.2d at 701. To rebut this presumption, "the infringer must clearly negate the finding of irreparable harm." *Id.* In that case, the court rejected the infringer's argument that this showing was rebutted by the notion that the patentee had not suffered irreparable harm during the time the case was pending and that the infringer was a viable company that would be able to compensate the patentee for any losses it incurred. And finally, the court held that the "breadth and depth" of the "irreparable harm suffered by" the patent owner "significantly outweighs the harm which [the accused infringer] may suffer." *Id.* at 702-03.

And likewise, the court held that the patentee had no other adequate legal remedy. *Id.* at 703-04. Once again, the Federal Circuit has instructed on this point:

> Without the injunctive power of the courts, the right to exclude granted by the patent would be diminished, and

> the express purpose of the Constitution, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the leverage, afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Smith Int'l, 718 F.2d at 1577-78; *see also Trans-World Mfg.*, 750 F.2d at 1565 (noting that reasonable royalty damages may not compensate for continued infringement).

In this case, irreparable injury is presumed because MercExchange has clearly established both infringement and validity. *See Smith, Int'l*, 718 F.2d at 1581 ("We hold that where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed."). Without an injunction, MercExchange will continue to be deprived of its ability to either pursue the development of its inventions under the protection of its patent right, or to have the exclusive right to license its patented technology to others on the most beneficial terms available. Without an injunction, the passage of time alone deprives MercExchange of the benefits rightfully granted to it by the Congress and the United States Constitution. On this basis also, a permanent injunction should issue.

MercExchange has proved in this case that both eBay's and Half.com's infringement was willful. Indeed, all present and future infringement continues to be willful. Without an injunction, MercExchange will be severely disadvantaged in the potential licensing of its patents to others in the industry or in the development of its own online e-commerce technology. Infringing competition from eBay and Half.com denies Merc-

Exchange of the very property right conferred upon it under United States laws.

Moreover, post-verdict conduct by eBay and Half.com demonstrates that the infringement continues unabated. In fact, representatives of eBay have already stated that the trial was only "Round One" of an ongoing battle in an attempt to overwhelm the substantially smaller and under-funded MercExchange. Without an injunction, defendants' efforts may ultimately exhaust MercExchange's resources, thus permitting it to prevail notwithstanding its wanton and willful infringement of MercExchange's property rights.

D. An Injunction Will Protect The Public Interest, And No Countervailing Public Interest Militates Against An Injunction

To the extent the public interest factor is considered in patent infringement actions, it decidedly favors the patentee-movant as a result of the public's interest in upholding the rights of patentees and maintaining the integrity of and respect for the patent system. Entry of a permanent injunction serves the public interest of upholding and enforcing valid patent rights. *Smith Int'l*, 718 F.2d at 1581; *Jacobson v. Cox Paving Co.*, 19 U.S.P.Q.2d 1641, 1657, 1991 W.L. 328445 (D. Ariz.), *aff'd*, 949 F.2d 404 (Fed. Cir. 1991) ("Public policy favors protection of the rights secured by valid patents. The American public is not served by favoring the short-run effects of competition in the marketplace over the long-run effects of decreased incentives for innovation under the patent laws.").

Again, the treatment of this factor by the *Boehringer* court is instructive. The court held that the public interest in having access to the infringer's product did not outweigh the patentee's interest in enforcing its patent rights, notwithstanding the contention that the public health was implicated by injunction of the infringing vaccine. *Boehringer Ingelheim*, 106

F. Supp.2d at 704-07. Indeed, in addition to granting the permanent injunction, the court held that a stay of the injunction was not appropriate, that the accused infringer should recall infringing products, and that the patentee need not post a bond to secure issuance of the permanent injunction. *Id.* at 708-09, n. 6.

Thus, on balance, MercExchange's conclusive showing of infringement and validity compels this Court to grant an injunction against future infringement. The proposed injunction should be entered forthwith to provide MercExchange the protection to which it is entitled under the patent laws.

Under the relevant law set forth above, it is manifest that MercExchange is entitled to permanent injunctive relief. MercExchange has engaged in more than a year and one-half of hard-fought litigation against every conceivable defense in order to secure this verdict. Its intellectual property rights should not be subject to further disrespect through defendants' infringement. There is no countervailing public interest that would be served through denial of the injunction.

Indeed, the failure to enjoin eBay and Half.com in this case would invite others to misappropriate MercExchange's patent rights. Without injunctive relief, other companies would have no incentive to negotiate a license with MercExchange. Instead, they would force MercExchange to bring a series of expensive and time consuming patent infringements actions knowing that the worst penalty they could expect to receive is a compulsory license at a reasonable royalty. Thus, "[i]f no injunction issues, [MercExchange] effectively will be forced to license [its patents] to [eBay and Half.com], a result antithetical to a basic tenet of the patent system, namely that the decision whether to license is one that should be left to the patentee." *Odetics*, 14 F. Supp.2d at 795.

E. The Court Should Not-Stay An Injunction Against eBay and Half.com

Undoubtedly, eBay and Half.com will request that this Court stay any injunction it grants to MercExchange. Granting a stay would be inappropriate and inequitable in light of the ongoing harm caused by both eBay's and Half.com's continued willful infringement of MercExchange's patents. "The arguments for enforcing the injunction pending appeal are particularly strong where, as here, the infringement has been found to be deliberate and willful." *Corning Glass Works v. Sumitomo Elec. U.S.A., Inc.*, 674 F. Supp. 1074 (S.D.N.Y. 1987) (declined to enter stay of permanent injunction).

Further, a stay would deny MercExchange the benefit of its statutory right to exclude, which is the "principal value of a patent." *Howes v. Medical Components, Inc.*, 741 F. Supp. 528, 534 (E.D. Pa. 1990) (refusing to grant stay of permanent injunction, noting that the "equities lie not in protecting an adjudicated infringer from loss of market share, but instead lie in protecting the prevailing plaintiffs from further loss of exclusivity") (citing *H. H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987)).

Indeed, granting a stay essentially would nullify MercExchange's ability to license its patents until the stay is lifted following appeal. Moreover, the defendants' present dominant market position, gained through its unauthorized use of MercExchange's patents, will discourage other potential licensees from negotiating with MercExchange. In fact, MercExchange's AutoTrader license was negotiated under that cloud, and expressly requires MercExchange to obtain an injunction in order to receive royalties.

In addition, the defendants should not be heard to complain that its infringing activities may have some limited impact on its operations. First, as the Court observed, the '265 patent only applies to fixed-price sales that involve transactions

processed through PayPal, BillPoint, or some other payment processor. This is only a fraction of the defendants' overall sales. Thus, any impact will be significantly minimized as even press reports have noted, in that it does not affect eBay's "core auction business."

Second, even if it did impact in some small way on the Defendants' overall operations, this result is of defendants' own doing. After all, eBay approached MercExchange in June of 2000 in an attempt to purchase the patent portfolio. It could have done so at that time, but instead chose to take its chances through litigation, leaving the ultimate determination to a jury.[1] Thus, any protestations from eBay or Half.com should fall on deaf ears.

"Injunctive relief in a patent case . . . is generally 'not stayed pending appeal unless the party seeking that relief meets the burden of establishing compelling reasons.'" *Hesston Corp. v. Sloop*, 734 F. Supp. 952 (D. Kan. 1990) (refusing to grant stay of permanent injunction) (citing *S. C. Johnson, Inc. v. Carter-Wallace, Inc.*, 225 U.S.P.Q. 968, 971 (S.D.N.Y. 1985) (refusing to grant stay of permanent injunction)). eBay and Half.com cannot show a compelling justification for a stay. Particularly here—in view of the jury verdict in MercExchange's favor, including an express finding of willful infringement of 41 claims in two MercExchange patents. Indeed, the Defendants cannot even make a "strong showing of likelihood of success on appeal." *Odetics*, 14 F. Supp.2d at 801 (refusing to grant a stay to a patent infringer). Accordingly, any request for a temporary stay pending appeal should be rejected.

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[1] Moreover, as this Court well knows, the defendants never even made any settlement proposal to Plaintiff, including during the period of lengthy deliberations by the jury.

III. CONCLUSION

For the foregoing reasons, MercExchange respectfully requests that the Court enter a permanent injunction pursuant to the jury's verdict of infringement.

Dated: June 12, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,
Defendants.

PLAINTIFF MERCEXCHANGE, L.L.C.'S BRIEF IN SUPPORT OF ITS MOTION FOR ENHANCED DAMAGES UNDER 35 U.S.C. § 284 AND ATTORNEYS' FEES UNDER 35 U.S.C. § 285

FILED UNDER SEAL THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT - FILED SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER

* * * *

patent system."). Absent the strong deterrent provided by an enhanced damage award, large companies, such as the Defendants, would have no incentive to negotiate a patent license with smaller companies, such as MercExchange, finding in-

stead that it is more profitable to infringe and take their chances on not being caught:

> If this [compensatory damage] amount were not increased, Lightwave and other willful infringers would have no incentive not to infringe. To the contrary, knowing that they would not be held liable or that they could simply pay a reasonable royalty after a finding of infringement, infringers would find it desirable and profitable to infringe.

Lightwave Techs. Inc. v. Corning, 19 USPQ.2d 1834, 1848 (S.D.N.Y. 1991).

As set forth below, the *Read v. Portec* factors heavily weigh in favor of trebling the damages returned by the jury. Indeed, one cannot imagine a more compelling case for treble damages.

1. Defendants Deliberately Copied the Patented Features

It is undisputed that the Defendants were aware of MercExchange's patents before the filing of the present action. *See, e.g.*, Tr. 2248:5-2251:9 (Defendants' Responses to Requests for Admission 9, 11, and 14: "eBay admits that eBay's outside counsel was aware in July of 2000 that the '176 patent had issued. . . . eBay was aware of the issuance of the '265 patent before receiving notice of the '265 patent in the Complaint in the above-captioned matter.") (Ex. 2 hereto). As such, the Defendants were under an affirmative duty to avoid infringing MercExchange's patents. *See Minnesota Mining and Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992); *NTP, Inc. v. Research in Motion, Ltd.*, Civil Action No. 3:01CV767, slip. op at 5 (E.D.Va. May 23, 2003) (attached as Ex. 3 hereto). However, instead of avoiding MercExchange's patents, the Defendants made a deliberate decision to move *towards* MercExchange's patent rights. In June of 2000, eBay representatives from

Cooley Godward met with MercExchange to discuss eBay's interest in acquiring the MercExchange patent portfolio. PX 435 (Ex. 4). eBay's Deputy General Counsel, Jay Monahan, confirmed that he had communications with Cooley Godward attorneys about MercExchange and the MercExchange patents. *See* Trial Excerpt of Transcript of Deposition of John Monahan, Jr. at 147:18-149:7 ("Monahan Dep.") (Ex. 5). At the time of the eBay/MercExchange June 2000 meeting, the '265 Patent had issued and MercExchange had received a Notice of Allowance from the U.S. Patent and Trademark Office (USPTO) for the application which issued as the '176 Patent on July 4, 2000.

In June, 2000, eBay's system was significantly different than it is today. For example, eBay did not have a fixed-price sales format, nor did it have an integrated transaction processor. Subsequent to the June 2000 meeting, and with full knowledge of the '265 Patent claims and the allowed '176 Patent claims, eBay began to implement new system features directly copying the patent claims. For instance, in July 2000, eBay announced its $365 million acquisition of Half.com, an electronic market which permits sellers to list items for sale at fixed prices and which conducts searches of items in multiple electronic markets utilizing a software search agent process. *See* Excerpts of PX 443 (eBay Form 10-K for The Fiscal Year Ended December 31, 2000 at E0267716) ("On July 11, 2000, we acquired Half.com. Half.com provides a fixed-price, person-to-person e-commerce site allowing people to buy and sell previously owned goods at discounted prices.") (Ex. 6); PX 195 (Excerpts of Agreement dated July 11, 2000 for eBay Inc. Acquisition of Half.com, Inc.) (Ex. 7). In the Acquisition Agreement, Half.com notified eBay that its Price Comparisons feature could infringe third-party intellectual property rights. PX 195 at H005121 and H005320 (Ex. 7). *See also* Trial Excerpt of Transcript of Deposition of Joshua Kopelman ("Kopelman Dep.") at 340:20-350:20 (Ex. 8). In November of 2000, eBay introduced its infringing "Buy It Now"

fixed price format for listing items for sale via the eBay web site. *See* PX 443 at E0267700 (Ex. 6) ("In November 2000, eBay implemented the 'Buy it Now' feature."). In December of 2000, eBay announced the availability of its Application Programming Interface (API) to enable sellers to develop customized software applications for posting items for- sale on eBay's web site. See PX 443 at E0267697 (Ex: 6). Finally, in October of 2002, eBay paid almost $1.5 billion to acquire PayPal, an online transaction processor service, and has since integrated this transaction processor into its system. *See* Excerpts of PX 719 eBay Form 10-Q for the Quarterly Period Ended September 30, 2002 at 5, announcing eBay's acquisition of PayPal) (Ex. 9).

Thus, rather than avoiding MercExchange's patent rights, the Defendants instead made a deliberate decision to willfully trample those rights. Such evidence strongly favors enhancement of the damage award. *See Johns Hopkins Univ. v. CellPro*, 978 F. Supp. 184, 194 (D. Del. 1997) (evidence of deliberate copying supports "substantial increase in damages" where there is no proof that the defendant formed a good faith belief that the patents were invalid), *aff'd*, 152 F.3d 1342 (Fed. Cir. 1998); *Hoechst Celanese Corp. v. BP Chemicals Ltd.*, 846 F. Supp. 542, 549 (S.D. Tex. 1994) (enhancing damages, in part, because defendant based infringing process on ideas in plaintiff's patent), *aff'd*, 78 F.3d 1575 (Fed. Cir. 1995), *cert. denied*, 519 U.S. 911 (1996).

2. Defendants Failed to Conduct a Patent Clearance Investigation and Failed to Obtain a Non-infringement or Invalidity Opinion

As set forth above, it is undisputed that the Defendants were aware of MercExchange's patents before the filing of the present action. As such, the Defendants were under an affirmative duty to avoid infringing MercExchange's patents. *See American Medical Systems, Inc. v. Medical Engineering Corp.*, 6 F.3d 1523, 1530 (Fed. Cir. 1993) (willful infringe-

ment is established when the accused infringer knew of the patent at issue, and yet "acted in disregard of the patent . . . [and] had no reasonable basis for believing it had a right to do so."); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) ("Where . . . a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity."). Indeed, the question of whether or not a defendant has sought and relied upon competent opinion of patent counsel is so important that the failure to seek such an opinion alone may justify a finding of willfulness. *Avia Grp. Internat'l, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557, 1566 (Fed. Cir. 1988); *Everett Assoc., Inc. v. Transcontinental Ins. Co.*, 57 F. Supp.2d 874, 886 (N.D. Cal. 1999).

Despite this duty, the Defendants deliberately proceeded to infringe the '265 and '176 Patents without performing a patent clearance investigation or obtaining an exculpatory opinion of patent counsel. *See, e.g.*, PX 436 (Ex. 10) (Defendants' counsel's communication to MercExchange's counsel: "Please note that the defendants do not intend to rely on an opinion of counsel in response to MercExchange's willful infringement charge."); Tr. 2248:5-2251:9 (Ex. 2) (Defendants' Responses to Requests for Admission 9, 11, 14, 26, 927, 99 and 114: admitting Defendants' notice of the '265 and '176 Patents before the filing of the Complaint; admitting that neither eBay nor Half.com have a patent clearance policy; admitting that eBay did not perform a prior art search pertaining to the '265 Patent; and admitting that Half.com has had proposed claims in a patent application rejected based upon the '265 Patent); Monahan Dep. at 20-21, 141-142, 146-147 (Ex. 5) ("Q: Does eBay have an opinion from counsel with respect to the alleged invalidity or noninfringement of any of the patents

in suit? A: No."); Kopelman Dep. at 58:16-63:13 (admitting that Half.com has no opinion of counsel) (Ex. 8).

The Defendants' utter failure to investigate whether they infringed the '265 Patent or the '176 Patent is compelling justification for trebling the damages award. *See, e.g., Novo Indus., L.P. v. Micro Molds Corp.*, 239 F. Supp.2d 1282, 1290 (S.D. Fla. 2002) (failure to seek written opinion of counsel "mitigates strongly in favor of enhanced damages"); *Lucent Technologies, Inc. v. Newbridge Networks Corp.*, 168 F. Supp.2d 269, 274 (D. Del. 2001) (awarding double damages where, *inter alia*, defendant "rarely, if ever, performed patent searches before launching its products" and ostensibly only relied on Canadian patent counsel unfamiliar with U.S. patent law); *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 891 F. Supp. 751, 834 (E.D.N.Y. 1995) (deliberate copying and failure to obtain opinion of counsel after notice of patent "strongly support[s] enhancing the damage award").[1]

3. Defendants' Abusive Litigation Behavior

The Defendants' litigation tactics reflect a consistent effort to delay this case at every opportunity, to drive up the costs in an effort to exhaust MercExchange's resources and its resolve, and to continue to misappropriate MereExchange's patented inventions. Without reciting the entire docket of this case, the following is a partial summary of the abusive and expense-enhancing litigation tactics the Defendants have employed.

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[1] This Court recently awarded enhanced damages and attorneys' fees to a prevailing patent owner where the infringer purportedly had only obtained an oral, conclusory opinion of noninfringement. This Court held that the oral opinion was not competent and that "[a] reasonably prudent person under these circumstances would not have confidence that a court would render a finding of non-infringement or invalidity." *See NTP, Inc. v. Research in Motion, Ltd.*, slip. op. at 7 (Ex. 3).

a. Defendants' numerous meritless summary judgment motions

The Defendants filed four motions for summary judgment on April 1, 2002 attempting to invalidate MercExchange's three patents based on information the Defendants had withheld from discovery. The Defendants' motions relied upon testimony of purported prior art witnesses who had never been previously identified in answers to interrogatories requesting such information, alleged prior art documents which had not previously been produced in response to document requests, and other witnesses and prior art documents, the identities of which the Defendants had deliberately buried in discovery responses which listed more than 100 witnesses and over 300 alleged prior art documents. Moreover, the Defendants had previously objected to and failed to answer interrogatories seeking the identities of the persons most knowledgeable about their defenses, nor did they provide any claim charts or otherwise provide any explanations of how any of their 300 purported prior art references allegedly invalidated any claim of the patents, although MercExchange's interrogatories required Defendants to do so. In effect, the Defendants were preparing these four summary judgment motions as they were withholding this information from MercExchange in discovery. *See* MercExchange's Expedited Rule 56(f) Motion and Memorandum in Support, filed on April 3, 2002 (Court Docket Nos. 54 and 55).

MercExchange's counsel was forced to shift gears from its attempts to depose the Defendants' employees and conduct a site inspection of ReturnBuy's facility (which were the subjects of then pending motions to compel); draft a Rule 56(f) motion to obtain the prior art discovery that the Defendants had withheld; subpoena and depose four newly-identified prior art witnesses, one of whom was a resident of Singapore; and meet with its technical experts so that it could prepare and file responses to these four summary judgment motions within three weeks after their receipt.

After MercExchange's depositions of the above-referenced four newly-identified prior art witnesses, MercExchange discovered that the Defendants had no corroborating documentation to support Messrs. Magliato's and DiMaggio's Declarations submitted in connection with their Joint Motion for Summary Judgment that the '265 Patent was Invalid (Docket Nos. 49-50). The Court therefore denied the Defendants' Motion for Summary Judgment and struck the fictitious graphic of the purported prior art system which the Defendants had included in Messrs. Magliato's and DiMaggio's Declarations, finding that the graphic was highly misleading. See Order dated July 10, 2002 (Docket No. 153).[2]

The Defendants later filed four more summary judgment motions over the course of the litigation, each of which required MercExchange to file detailed oppositions with expert testimony, and each of which were ultimately denied by the Court.[3]

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[2] The Court also denied two of the Defendants' other motions for summary judgment of invalidity filed on April 1, 2002. *See* Order dated July 10, 2002 denying eBay's Motion for Summary Judgment that Claims of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness (Docket No. 153); and Order dated October 21, 2002 denying Motion by Half.com for Summary Judgment that Claims of U.S. Patent No. 6,085,176 are Invalid (Docket No. 212).

[3] *See* Post-*Markman* Motions by eBay, Inc. for Summary Judgment of Unenforceability and Noninfringement of U.S. Patent No. 6,202,051 dated November 15, 2002 (Docket Nos. 218-219), and Order dated February 14, 2003 denying eBay's motions (Docket No. 274); Post-*Markman* Motion by Half.com and eBay for Summary Judgment of Noninfringement of U.S. Patent No. 5,845,265 dated November 15, 2002 (Docket Nos. 220-221) and Order dated February 14, 2003 denying eBay's and Half.com's motion (Docket No. 274); and Post-*Markman* Motion by Half.com and eBay for Summary Judgment of Noninfringement of U.S. Patent No. 6,085,176 dated February 28, 2003 (Docket Nos. 279-280), and Order dated March 28, 2003 denying eBay's and Half.com's motion (Docket No. 332).

b. Defendants' obstruction of discovery forced MercExchange to file nine motions to compel

Because of the Defendants' repeated obstruction of MercExchange's discovery, MercExchange was forced to file nine motions to compel discovery from the Defendants over the course of this litigation. Many of these motions dealt with multiple categories of information withheld by the Defendants.

For example, in MercExchange's First Motion to Compel Discovery from the Defendants, filed on March 27, 2002 (Docket Nos. 41-42), MercExchange was required to move the Court to compel the Defendants to produce their patent application files responsive to MercExchange's Document Requests 9 and 29, served in January. The Defendants refused to comply with these requests on the basis that such documents were purportedly not relevant to any issues in this case.

Prior to the scheduled Court hearing on this motion, the Defendants agreed to produce these documents. *See* Agreed Order dated April 12, 2002 (Docket No. 61). Ultimately, the Defendants' own patent application files proved highly relevant as they established that the Defendants had notice of MercExchange's patents prior to the filing of this suit because, for example, the USPTO had rejected one of Half.com's patent applications as completely anticipated by MercExchange's '265 Patent. *See* PX 557 (Ex. 11). And, at least one MercExchange patent had been cited by eBay or the USPTO as material prior art in connection with over 60% of eBay's patent applications. *See* PX 111 (Ex. 12).

On April 1, 2002, MercExchange filed a second motion to compel the Defendants to produce their employee witnesses for noticed depositions and to permit MercExchange's noticed Rule 34(a)(2) site inspection of ReturnBuy's facility to proceed. (Docket Nos. 43-44). The Defendants had caused the indefinite postponement of the ReturnBuy site inspection

and the depositions by claiming that the noticed dates were unavailable for the Defendants' counsel or their witnesses. The Defendants had failed to provide any alternative dates despite MercExchange's persistent requests over the course of several weeks. MercExchange was also forced to request a modification of the Court's Scheduling Order because, under the then-pending Scheduling Order, MercExchange's Initial Expert Reports were due in less than a month and Defendants had completely precluded MercExchange from deposing a single witness. After the close of business on the same day MercExchange filed this Second Motion to Compel, MercExchange's counsel was served with the papers relating to Defendants' four motions for summary judgment as set forth above, thereby further delaying MercExchange's affirmative discovery of Defendants' infringement.

Prior to the scheduled hearing, the Defendants provided dates for the ReturnBuy site inspection and depositions, thus mooting these issues. *See* Agreed Order dated April 9, 2002. The Court granted the other portion of MercExchange's motion and modified the Scheduling Order. See Order dated May 9, 2002 (Docket No. 99).

On April 10, 2002, MercExchange filed its Third Motion to Compel Discovery and Modify the Rule 16(b) Scheduling Order (Docket Nos. 59-60). This motion related to the Defendants' failure to produce a number of categories of documents requested in document requests, including, among other categories: engineering documents related to eBay's computer architecture for its Internet operations, emails, documents relating to eBay's investment in co-defendant ReturnBuy, documents relating to other intellectual property litigations in which the Defendants were parties, and the Defendants' licenses and other agreements relevant to damages and other issues in this action. These documents had been requested in MercExchange's first set of document requests served in January, 2002, yet three months later, the

Defendants still refused to produce them. The Court ordered the Defendants to produce these documents. *See* Order dated May 17, 2002 (Docket No. 105).

Once again, on April 18, 2002, MercExchange was forced to file a Fourth Expedited Motion to Compel Discovery and for sanctions because, notwithstanding the entry of the Court's Order of April 9, 2002 and Defendants' agreement to make their employee witnesses available for depositions (thereby mooting MercExchange's Third Motion to Compel as set forth above), by April 18, MercExchange still had not been able to take a single deposition of Defendants' employees.

Although dates for four of the Defendants' employee witnesses had been the subject of a painstaking negotiation between the parties, as reflected in the Court's April 9, 2002 Order, the Defendants abruptly cancelled these depositions without justification. For the remaining noticed depositions, the Defendants continued their refusal to provide any dates for such depositions.

This motion also addressed the Defendants' failure to comply with the Court's Order of April 4, 2002 (Docket No. 56) which directed the Defendants to respond to MercExchange's Second and Third Sets of Requests for Admissions without qualification or equivocation. (These requests sought to have the Defendants authenticate screen shots from their own web sites.) Unfortunately, the Defendants did not comply with the Court's Order and, instead, interposed a whole new raft of objections upon filing their supplemental responses to these requests for admissions. Once again, the Court ordered the Defendants to answer these requests for admissions "providing clear and specific answers either affirming or denying the statements or articulating a specific reason why neither is possible." *See* Order dated May 17, 2002 (Docket No. 105).

MercExchange filed a Fifth Motion to Compel Discovery on April 22, 2002 (Docket Nos. 6970). This motion related to

MercExchange's multiple attempts to obtain documents responsive to a subpoena *duces tecum* served on eBay's Founder and Chairman Pierre Omidyar, and to depose Mr. Omidyar pursuant to the subpoena. The Defendants had forced MercExchange to serve a subpoena upon Mr. Omidyar because, in their responses to MercExchange's discovery requests, they indicated that certain documents relating to Mr. Omidyar were not in the Defendants' possession, custody or control and, thus, they could not produce them.

The return date on the document subpoena came and went without receipt of any documents or any objections to the subpoena from Mr. Omidyar. Eleven days after the subpoena's return date, counsel for the Defendants served objections to the subpoena, but refused to produce any responsive documents or a privilege log identifying withheld documents, or even provide a date on which they would produce responsive documents. And, although the Defendants had identified Mr. Omidyar in their discovery responses as a person having knowledge of factual information relevant to the issues in this case (e.g., he created eBay's system), they refused to produce him for a deposition.

Prior to the hearing on this motion, Mr. Omidyar produced 6 pages of documents responsive to the subpoena. Of course, it is difficult to believe that the Chairman and Founder of eBay would only have 6 pages of documents related to eBay in his possession. After MercExchange pointed this out, another subsequent production of a few more documents was received, but this too was deficient. Once again, the Court ordered Defendants to provide the requested discovery from Mr. Omidyar. *See* Order dated May 17, 2002 (Docket No. 105) ("The deposition is entirely appropriate and may be taken at a time mutually agreed upon by the parties. Omidyar's testimony may be elicited for any subject which is relevant to the lawsuit, without exception. Further, Omidyar is to produce all documents in his possession which are

legitimately the subject of the subpoena *duces tecum* previously issued by plaintiff.").

Unfortunately, although the Court ordered Mr. Omidyar to fully comply with MercExchange's subpoena, not a single responsive document was produced following the Court's Order. During the course of MercExchange's deposition of Mr. Omidyar on June 4, 2002, it became evident that he did not conduct any search for documents responsive to the subpoena subsequent to the Court's Order. Instead, Defendants and Mr. Omidyar simply ignored the Court's Order, thus forcing MercExchange to file a Motion for Contempt of the Court's May 17, 2002 Order (Docket Nos. 139-140).

> MR. ROBERTSON: In fact, when I deposed Mr. Omidyar, I asked him whether or not counsel had even shown him the Court's Order which required him to produce all legitimate documents responsive to the subpoena, and the answer was, no, he had not seen it.
>
> I asked him if he took any steps, subsequent to the Court's Order on May 17, prior to the deposition on June 4, to comply with the order. He said he didn't even know about it, hadn't done anything.

Excerpt of Transcript of Hearing on Motions, November 13, 2002 at 57 (Docket No. 217) (Ex. 13).

Moreover, the Defendants' counsel effectively prevented Mr. Omidyar from answering many questions during the deposition relating to the document subpoena. The Court found the Defendants' counsel's objections during Mr. Omidyar's deposition to have materially interfered with MercExchange's ability to conduct a meaningful deposition.

> THE COURT: I can't help but wonder, Mr. Randall, when I read the excerpts of the notes and the excerpts of the transcript of Mr. Omidyar, how much more useful it may have been to all of us if that deposition of Mr.

Omidyar had not been repeatedly interrupted with objections that were simply irrelevant; there were objections that strike me as being intended to either give him an answer or signal something to him that he ought to do in the course of that deposition, instead of simply letting him respond to the deposition, particularly since he's the man that created that corporation.

So on this particular issue, I'm not sure where we stand, except that one of the things I have decided—had decided was that it was necessary to take another deposition of Mr. Omidyar because of the fact that the plaintiff's opportunity to reasonably depose him was interfered with, and I consider it to be materially interfered with. I'll give the plaintiffs that opportunity and the opportunity to explore with him whether or not there are any other documents that he has.

* * * *

If I had been dealing with this deposition or had been dealing at the time that it was taking place and knew the objections that were being filed, I'm deadly serious, I would've called your office and said, "Get associate counsel and get them out here now because Mr. Randall is not going to take anymore of this deposition."

You need to understand, I litigated for twenty-five years. I did all sorts of litigation. I litigated in federal court as well as state court. I think that defense counsel, like plaintiff's counsel, have enormous discretion and freedom in what they are able to do in the course of advising their client and representing their client at trial, but you reach a point when you go across the line. *You crossed the line on Omidyar. Without question, you crossed the line. And it is unconscionable to interpose the kind of objections that you interposed, which were absolutely unfounded, in an effort to skew how that deposition comes off.*

So I don't want you to think for a moment that I take this motion for contempt lightly. I do not.

Ex. 13 at 69-71 (emphasis added).

On June 14, 2002, MercExchange filed its Sixth Motion to Compel eBay to produce a 30(b)(6) deposition witness to testify concerning the automated processes used for payment for-items sold via eBay's web site. (Docket Nos. 124-125). On April 1, 2002, MercExchange had served eBay with a 30(b)(6) deposition notice requesting eBay to produce a witness to testify on its behalf with respect to a number of topics related to the claims asserted in this action. Topic 18 of that 30(b)(6) notice requested that eBay produce a witness to testify concerning the "development, implementation and operation of automated processes for payment for items sold via eBay's web site."

The Defendants' counsel refused to produce a witness claiming that this topic needed to be addressed by an employee of eBay's wholly-owned subsidiary Billpoint. Although MercExchange did not agree that this was an appropriate basis for eBay to refuse to produce a witness, in order to avoid unnecessary motion practice on this issue, MercExchange served a 30(b)(6) notice upon Billpoint. MercExchange asked the Defendants' counsel to accept service of this deposition notice on behalf of Billpoint, but the Defendants' counsel refused. MercExchange then served Billpoint with a deposition notice and subpoena on June 5, 2002 for a deposition to be taken on June 17.

After MercExchange served the subpoena on Billpoint, the Defendants' counsel then revealed that they also represented Billpoint and moved to quash the subpoena upon Billpoint in federal court in California as being "too late" in the discovery period, even though the Defendants themselves had noticed several other depositions to be taken after June 17. What made the Defendants' position particularly untenable was that

eBay's wholly-owned subsidiary Billpoint was located in the same building as eBay's headquarters, and their systems were fully integrated. The Defendants also continued to refuse to designate a 30(b)(6) witness to testify on behalf of eBay on its transaction processing systems, even though that deposition notice was served on April 1.

Now having to fight this discovery battle on two fronts, MercExchange filed a cross-motion to compel Billpoint's compliance with the subpoena in federal court in California. On June 26, 2002, this Court granted MercExchange's sixth motion to compel and ordered eBay to designate a 30(b)(6) witness to testify on Topic 18. (Docket No. 142). The Court further ruled that the 30(b)(6) witness must be available for deposition on or before July 11, 2002. On June 28, 2002, the Magistrate Judge in the Northern District of California overruled the Defendants' motion to quash the Billpoint subpoena in its entirety and granted MercExchange's cross-motion to compel ordering Billpoint to produce all documents responsive to MercExchange's document subpoena two business days later, and to produce a witness for deposition.

July 2 came and went without the production of any Billpoint documents. Instead, on July 11, the date set for the eBay 30(b)(6) transaction processing deposition, the Defendants appealed the California Magistrate Judge's Order by filing objections with the District Judge. The California District Judge denied the Defendants' objections.

Finally, on August 14, 2002, Billpoint served some documents responsive to the subpoena, but continued to refuse to produce all responsive documents and, instead, served a second round of objections to the subpoena. Billpoint next filed a motion for a protective order in federal court in California claiming that the subpoena was unduly burdensome. The California Court entered another Order denying Billpoint's motion and suggested that any disputes be addressed by this Court. Thus, MercExchange filed its Eighth Motion to

Compel Discovery on August 30, 2002 (Docket Nos. 190-191), seeking an order requiring Billpoint to comply with the subpoena and the prior Court Order directing it to produce documents and designate a witness for deposition. MercExchange also reiterated that it had served transaction processing discovery requests upon eBay in January, 2002 and had noticed eBay's deposition on April 1, and the Defendants had consistently refused to provide this discovery.

The Court entered an Order on November 18, 2002 directing the parties to meet and confer with respect to this dispute. Nevertheless, the Defendants continued to resist producing an eBay. 30(b)(6) designee on topic 18 and a Billpoint deposition witness. MercExchange again had to request the intervention of the Court, which the Court granted in a telephonic hearing on March 14, 2003. At that hearing, the Defendants contended that the close of discovery precluded MercExchange from taking these depositions which had been noticed almost a year prior to that hearing. This Court strenuously disagreed, "*Judge Friedman never in the wildest stretch of his imagination, said that there would be absolutely no more discovery. That's nonsense.*" Hearing of March 14, 2003 at 8 (Ex. 14) (emphasis added).

MercExchange eventually took the depositions on March 24 and 25, 2003. Then, on April 1, 2003, after 14 months a obstruction by the Defendants, involving the intervention of two separate, federal judges and two separate Magistrate Judges, and five court orders directing the discovery, the Defendants asked the Court to exclude MercExchange's evidence taken during the two transaction processing depositions as "prejudicially late." *See* Defendants' Motion in Limine No. 15 (Docket Nos. 342-343). The Court denied this motion.

MercExchange filed a Seventh Motion to Compel Discovery on July 8, 2002 (Docket Nos. 151152). Again, there is a tortured history of stonewalling tactics employed by the Defendants in connection with this motion. This motion related

to the source code used to program the Defendants' computer systems to perform the infringing functions at issue. MercExchange had requested production of the Defendants' computer source code in its first set of discovery requests served in January 2002.

The Defendants initially produced over 125,000 pages of source code, however, much of it was not produced until after MercExchange had deposed the Defendants' technical witnesses who could explain it. Moreover, each of the Defendants' technical witnesses testified during deposition that they could not explain the operations of their systems without referring to the source code, even though these same witnesses stated that they had not written or reviewed any of that source code for several years in connection with their daily job responsibilities.[4] Thus, on May 20, 2002, Merc-

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[4] For example, Mr. Alex Poon, eBay's 30(b)(6) witness, who had been employed by eBay since August of 1997, repeatedly refused to answer questions directed to the flow of screen shots for the eBay web site without first consulting the source code, even though eBay designated him to testify concerning the user interface for the eBay web site.

> THE WITNESS: *The exhibit isn't really necessarily indicative of how the code works.* Are you asking me whether or not the—the steps shown in this exhibit is how the code works?
>
> Q: I'm asking you if I'm a user of eBay's system, is this accurate as far as the steps that I need to perform to begin the "Sell your item" process?
>
> MR. RANDALL: Objection. Your question lacks foundation and is vague and ambiguous and calls for speculation.
>
> THE WITNESS: *The most accurate steps that occur when a user wants to sell on eBay is documented in the code. This is not really an accurate representation of what occurs through a selling process.*
>
> Q: Why isn't this accurate?
>
> A: This is a generalization—. . .—it's written for an audience certainly nontechnical. Technically what is really occurring when folks want to sell on eBay is not these steps.

Q: What steps would be employed if you want to sell an item on eBay?

A: *For me to give you the most accurate answer, I would need the—the current source code in front of me. . . .*

* * *

Q: . . . From the browser perspective, if you will, what will happen in response to a user clicking on the Register link if they were clicking on it on an actual web page?

MR. RANDALL: Okay. Same objection. Your question lacks foundation and calls for speculation.

A. In order for me to be a hundred percent accurate in answering your question, I would need to have either the web site in front of me or the source code to this page.

* * *

Q: Once the validity checks are completed, what happens next in the system?

A: *Again, I would need the source code to give you a completely accurate description. . . .*

MR. RANDALL: Do we have the current source code here to allow the witness to look at it to give a completely accurate answer?

MS. ALBERT: Have you produced the current source code to us?

MR. RANDALL: Well, I'm asking you. Do we have it here?

MS. ALBERT: I don't believe you've produced the current source code to us.

MR. RANDALL: So the answer I guess is no.

MS. ALBERT: That is correct.

* * *

Q: As shown in Exhibit 29, are there certain terms that the user must agree to and indicate agreement by checking off certain boxes?

MR. RANDALL: Objection; calls for speculation.

THE WITNESS: There are indeed on the page of Exhibit 29 check boxes beside small paragraphs of text that users are allowed to click on.

* * *

Q: Does the system require that checks be clicked in connection with the four items illustrated? MR. RANDALL: Objection; calls for speculation, is vague and ambiguous and lacks foundation.

Exchange served a single interrogatory on each Defendant asking them to identify the specific pages of their source code they had produced, which are used to implement various features or functions of the Defendants' systems. In answering these interrogatories, the Defendants simply identified the entire range of all of the pages of the source code they had produced, without attempting to identify the specific pages of source code corresponding to the identified functions, which was, of course, the very point of the interrogatories.

After MercExchange filed this Motion to Compel, on September 6, 2002, each Defendant served a supplemental response to the interrogatory that included a listing of purported "representative" Bates ranges of source code pages for the enumerated functions, but which also included a full page of qualifications which essentially rendered the answer meaningless.

The Court held a hearing on November 13 which addressed this issue, among others. The Court agreed that the qualifying language essentially rendered the interrogatory answer meaningless:

> THE COURT: You all have the responsibility to provide the source code, which you object to.

> THE WITNESS: *Again, without the source code I can't answer with hundred percent accuracy. . . .*
>
> Q: If you turn to page 2 of the exhibit, once the checks are turned on and a user clicks on the I Accept This Agreement button, what happens next on the eBay system side?
>
> A: *Without the source code, I don't recall what happens next.*

May 7, 2002 Transcript of Deposition of Alex Poon at 197-210, 214-218 (emphasis added) (Ex. 15). On May 16, 2002, Half.com produced almost 20,000 pages of source code and on May 20, 2002, more than one week after Poon's deposition, eBay produced over 12 boxes of source code amounting to approximately 40,000 pages.

> The objection that you made to the source code—and I've seen the objections. . . . The objections apparently were subsumed by the decision to go and provide the source code. That's been given to the plaintiff.
>
> If I were the plaintiff, I'd say, "Well, I'm getting set up as a patsy again."
>
> *I would be concerned, to be real frank, Rob, with the way the answer's done.*

Transcript of Hearing on Motions, November 13, 2002 at 35 (Ex. 13) (emphasis added).

The Court therefore ordered the Defendants to provide full and complete responses upon which MercExchange could rely, without the qualifications included in the September interrogatory answers. *See* Order dated November 19, 2002 (Docket No. 227). Notwithstanding this Order, the Defendants never supplemented the September interrogatory answers. Thus, since MercExchange had not received answers to interrogatories served seven months previously, MercExchange was forced to file a Rule 37 Motion to Preclude Evidence Regarding Source Code on January 16, 2003 (Docket No. 252). The Defendants, in response to this Rule 37 Motion, contended that they believed the Court's November 19, 2002 Order to be simply "advisory" and that the Court had given them the "option" to provide supplemental, responsive answers to the interrogatories.

c. Defendants' onerous discovery requests of MercExchange

In addition to their stonewalling tactics employed in defense to MercExchange's attempts to obtain discovery, the Defendants also employed a strategy designed to overwhelm MercExchange's limited resources by forcing MercExchange to respond to outlandish and unduly burdensome discovery requests. For example, even though there is a presumptive seven-hour rule governing the length of time for depositions,

the Defendants forced Mr. Woolston, the inventor of the patents-in-suit, to be deposed for four days of needlessly repetitive and harassing questioning. Not satisfied with subjecting Mr. Woolston to four days of questioning, the Defendants filed a motion to compel his attendance for still more days of deposition. The Court agreed with MercExchange that four days of deposition was more than enough. *See* Order dated June 26, 2002 (Docket No. 142) ("If defendants have not been able to get to the heart of Woolston's testimony within four days, the fault undoubtedly lies with counsel and not with Woolston.") (emphasis added).

Less than a week before the close of fact discovery, the Defendants noticed the depositions of 8 third-party witnesses at various locations around the country (Omaha, Nebraska; New York City; Dallas, Texas; Memphis, Tennessee and Pasadena, California among the locations) all to take place on the last day of fact discovery. This necessitated the filing of a Motion for Protective Order by MercExchange (Docket Nos. 127-128). Ultimately, the Court was forced to extend the fact discovery period in order to allow each side to complete the noticed depositions.

d. Other litigation misconduct

The Defendants' expert witnesses served 26 expert reports over the course of the case. Many of these were served under the guise that they were merely "supplemental" reports. To the contrary, in the last round of expert reports filed by the Defendants less than one month prior to trial, the Defendants attempted to raise a Section 112 invalidity defense which had never previously been raised in any discovery responses or any prior expert report. *See* Memorandum by MercExchange in Opposition to Motion by Half.com, eBay, Inc. for Clarification and/or Appeal that Defendants' Experts, Drs. Maly and Wellman, May Testify on Defenses under 35 U.S.C. Section 112, dated April 21, 2003 (Docket No. 412).

Moreover, in that final round of expert reports served less than one month prior to trial, the Defendants identified prior art, never previously identified or relied upon, which they asserted rendered certain patent claims invalid. Moreover, since these expert reports were served on MercExchange only a few days prior to the Defendants' depositions of MercExchange's experts and less than a month prior to trial, MercExchange's experts did not have an opportunity to serve rebuttal reports addressing these new invalidity theories and new prior art. The Defendants then sought to preclude MercExchange's experts from giving rebuttal testimony at trial concerning these new invalidity theories and prior art references. The Court ultimately permitted MercExchange's experts to testify concerning those new prior art references on which MerExchange's experts had testified in their depositions. Tr. 3152:7-3155:10; 3178:19-3185:19; 3251:6-3260:10 (Ex. 16).

In preparation for the Final Pretrial Conference, the Defendants filed 17 motions in limine seeking to preclude each one of MercExchange's experts from testifying at trial and seeking to preclude MercExchange from introducing evidence on highly relevant issues, many of which had been the subject of hard-fought battles by MercExchange to obtain discovery from the Defendants, including eBay's transaction processing (an issue that was the subject of 5 prior Court Orders). Thus, in less than two weeks before the Final Pretrial Conference, MercExchange had to respond to each of these 17 motions. Moreover, the Defendants appealed the decision on each motion on which they were unsuccessful during the Final Pretrial Conference, thereby necessitating rebriefing of each and that a trial day be used by the Court to address each of the appealed motions. This conduct essentially rendered the three-day Final Pretrial Conference meaningless.

The Defendants refused to stipulate to any facts in the Final Pretrial Order, a refusal noted by this Court as being unprece-

dented. Transcript of Pretrial Motions held April 22, 2003 at 9:16-10:1 (Ex. 17). Thus, MercExchange was, forced to put on proof at trial of numerous facts which the Defendants had already admitted during discovery. Of course, this refusal on the Defendants' part only served to unduly prolong a trial which was already a lengthy and complex one.

e. Defendants' misconduct at trial

The Defendants' conduct at trial was no better than their conduct during discovery. For example, the Defendants attempted to serve a new, never produced or identified prior art exhibit on MercExchange's counsel by having a hotel security officer telephone MercExchange's counsel at 11:20 p.m. on the evening prior to the first day at trial, trying to rouse counsel from bed to effect service of the exhibit on counsel. The Court found this behavior inexcusable. Tr. 3:10-4:22 (Ex. 18).

The Defendants' counsel consumed substantially more than half of the total time spent during MercExchange's case-in-chief at trial by lengthy and repetitive cross-examination of witnesses. The Defendants' counsel then filed a motion complaining that MercExchange's case-in-chief was taking too much time, and that MercExchange should be ordered to complete its case by a date certain. (*See* Docket No. 444). When the Court refused to grant the Defendants' motion, the Defendants then filed a motion seeking to bifurcate the liability issues from the damages aspects of the case. (Docket No. 457). Of course, since the Defendants had never before sought bifurcation, the Court denied this request.

The Defendants also tried mightily to prevent ReturnBuy's CEO, Walt Shill, from testifying at trial. First, they brought an oral motion during the Final Pretrial Conference seeking to preclude Mr. Shill from testifying. When the Defendants' first motion regarding Mr. Shill was denied, they filed another motion during the course of the trial to exclude Mr. Shill's testimony. (Docket No. 432). After the Court denied that

motion, the Defendants also resorted to having an eBay Senior Vice President, Mr. Alex Benn, repeatedly call Mr. Shill to dissuade him from testifying at trial, even though he was under a subpoena to do so. Tr. 1848:24-1850:4 (Ex. 19).

The Defendants also brought motions to preclude MercExchange from offering evidence of ReturnBuy's admission of infringement of the '265 Patent, thereby forcing MercExchange to expend trial time putting on evidence of ReturnBuy's infringement.

Moreover, even though ReturnBuy admitted infringement and entered into a Consent Order agreeing to cease such infringement (and agreeing that all parties acting in concert or participation with ReturnBuy must also cease the infringing activities), and even though the jury found eBay to have willfully induced ReturnBuy's infringement, eBay 'continues to this day to permit ReturnBuy's successor Jabil to post items for sale via the eBay web site. (This conduct is the subject of MercExchange's separate Motion for Contempt, filed concurrently herewith.)

The Defendants also refused to agree to a mutual exchange of demonstrative exhibits during trial and repeatedly deluged MercExchange's counsel with multitudes of new demonstrative exhibits never before produced on the evening prior to their use in Court. In fact, on the evening before closing arguments, the Defendants served 150 pages of new, never-before-produced demonstrative exhibits on MercExchange's counsel.

In sum, at every available opportunity, the Defendants consciously acted to delay the litigation, to obstruct MercExchange's discovery of relevant information, and to needlessly drive up the costs of the litigation, all in an effort to exhaust MercExchange's resolve and limited resources. Without question, an award of enhanced damages is needed in order to send a message to the Defendants that these abusive

tactics will not be countenanced by this Court.

4. Defendants are Large, Well-Financed Companies

Another *Read* factor that weighs heavily in favor of enhancement of the damage award here is the relative size of eBay (including its subsidiary Half.com) compared to MercExchange and the Defendants' ability to pay a significant judgment. *See, e.g., Johns Hopkins Univ.*, 978 F. Supp. at 195-96 (enhancing damages based in part on the strong financial condition of the defendant); *St. Regis Paper Co. v. Winchester Carton Corp.*, 410 F. Supp. 1304, 1309 (D. Mass. 1976) ("If defendant were the giant and plaintiff the small independent, I would make it treble.").

eBay's own consolidated financial reports indicate that it has over $2.2 billion in cash or cash equivalents, investments and total assets of more than $4.5 billion, and is one of the wealthiest corporations in the United States, with a market capitalization of over $30 billion.[5] *See Press Release: eBay Announces First Quarter 2003 Financial Results* (Ex. 20). *See also* Tr. 1957:4-1958:25 (Ex. 21) (Larry Evans testifying: "The last I looked, eBay had nearly a $30 billion market capitalization, a big number, and it's a number kind of hard to grasp until you realize that General Motors has a market capitalization of only a little more than $20 billion.").[6] In the first quarter of 2003, eBay's *gross profits* were $384.4 million. *See* Ex. 20. Indeed, financial analysts view the amount of damages in the jury's verdict here to be insignificant to a company of eBay's size. *See "Virginia jury rules against eBay in patent case,"* Forbes.com, May 27, 2003 (Ex.

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[5] Market capitalization is the trading price of the shares times the total number of outstanding shares, which many financial analysts view as the value of the corporation from the stock market's perspective.

[6] By comparison, MercExchange has three managing directors and no other employees. *See, e.g.*, Tr. 304:13-16; 1102:4-10 (Ex. 22).

23) ("Financial analysts said that even if the award was upheld, it was not likely to have a substantial impact on the financial results of eBay, which is expecting to book over $2 billion in revenues this year. . . . 'From my perspective $35 million is probably not material to eBay,' said Steve Weinstein, an analyst with Pacific Crest Securities.").[7]

Trebling the $35 million jury verdict (e.g., $105 million) would represent less than one third of eBay's gross profits realized in the first quarter of this year alone and less than one twentieth of the cash it had on hand as of March 31, 2003. For there to be any punitive impact upon the Defendants resulting from their willful infringement, a significant enhancement of the damages award is necessary.

5. This was not a "Close" Case

Examination of the resounding one-sided nature of the jury's verdict weighs heavily in favor of

* * * *

[7] Other press reports about the verdict echo that view. *See "eBay Is Ordered to Pay $35 Million in Patent Infringement Case,"* The Wall Street Journal, May 28, 2003 ("By itself, a $35 million award isn't likely to inflict significant damage on eBay's finances; at the end of the first quarter, the company had cash and cash equivalents of approximately $1.6 billion.") (Ex. 24).

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case Number 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,
Defendants.

DECLARATION OF GREGORY N. STILLMAN, ESQ. IN SUPPORT OF MERCEXCHANGE'S MOTION FOR ATTORNEYS' FEES UNDER 35 U.S.C. § 285

I, Gregory N. Stillman, declare:

1. I am an attorney admitted to practice in the Commonwealth of Virginia and a partner with the law firm of Hunton & Williams, counsel of record for plaintiff MercExchange, L.L.C. in this action.

2. Attached as Exhibit 1 is a summary of MercExchange's attorneys' fees in connection with the present lawsuit. This is a monthly listing of Hunton & Williams' professional fees by attorney/professional including the number of hours worked for that month and the hourly charge associated with that attorney/professional. This listing was generated by the accounting system at Hunton & Williams and extends only to May 27, 2003. If the Court desires, more detailed information is available.

3. Attached as Exhibit 2 is a listing of the disbursements billed to MercExchange by Hunton & Williams.

I declare under penalty of perjury that the foregoing is true and correct. Executed on the 12th day of June of 2003 in Norfolk, VA.

/s/ GREGORY N. STILLMAN
Gregory N. Stillman

Merchantcargo **SM14 14**
Patent Enforcement
Fees

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
Jan-01	S. L. ROBINSON		17.50	$400.00	$7,000.00	
	D. M. YOUNG		23.00	$315.00	$7,245.00	
	C. PATEL	Case Clerk	31.75	$150.00	$8,100.00	
Total Jan-01			72.25			$20,345.00
Jul-01	J. A. ALBERT		2.50	$440.00	$1,100.00	
	T. V. BRIGGS		19.50	$340.00	$6,630.00	
	S. L. ROBERTSON		36.50	$400.00	$14,600.00	
	T. MAERKY		2.00	$295.00	$590.00	
	R. H. BRADLEY	Paralegal	18.00	$140.00	$2,520.00	
	K. A. KELLMEL	Paralegal	28.00	$140.00	$3,920.00	
	A. GOLDFIELD	Case Clerk	51.25	$60.00	$3,750.00	
Total Jul-01			211.75			$35,907.50
Aug-01	J. A. ALBERT		49.50	$440.00	$21,780.00	
	T. V. BRIGGS		45.00	$340.00	$15,300.00	
	B. M. BURDYLA		115.75	$325.00	$37,618.75	
	T. J. CARLEY		2.50	$440.00	$1,100.00	
	S. L. ROBERTSON		110.50	$400.00	$44,200.00	
	D. M. YOUNG		130.75	$315.00	$41,186.25	
	T. MAERKY		90.75	$295.00	$26,771.25	
	R. H. BRADLEY	Paralegal	51.75	$140.00	$7,245.00	
	[illegible]	Paralegal	12.50	$80.00	$1,000.00	
	K. A. KELLMEL	Paralegal	62.50	$140.00	$8,750.00	
Total Aug-01			689.75			$241,579.25
Sep-01	J. A. ALBERT		13.00	$440.00	$5,720.00	
	T. V. BRIGGS		40.25	$340.00	$13,685.00	
	B. M. BURDYLA		18.50	$325.00	$6,012.50	
	T. J. CARLEY		14.00	$440.00	$6,160.00	
	S. L. ROBERTSON		51.00	$400.00	$20,400.00	
	G. N. STILLMAN		6.00	$485.00	$2,910.00	
	D. M. YOUNG		147.25	$315.00	$46,383.75	
	[illegible]		70.00	$270.00	$18,900.00	
	[illegible]	Paralegal	39.00	$140.00	$5,460.00	
	K. A. KELLMEL	Paralegal	20.00	$140.00	$2,800.00	
Total Sep-01			424.00			$148,194.00

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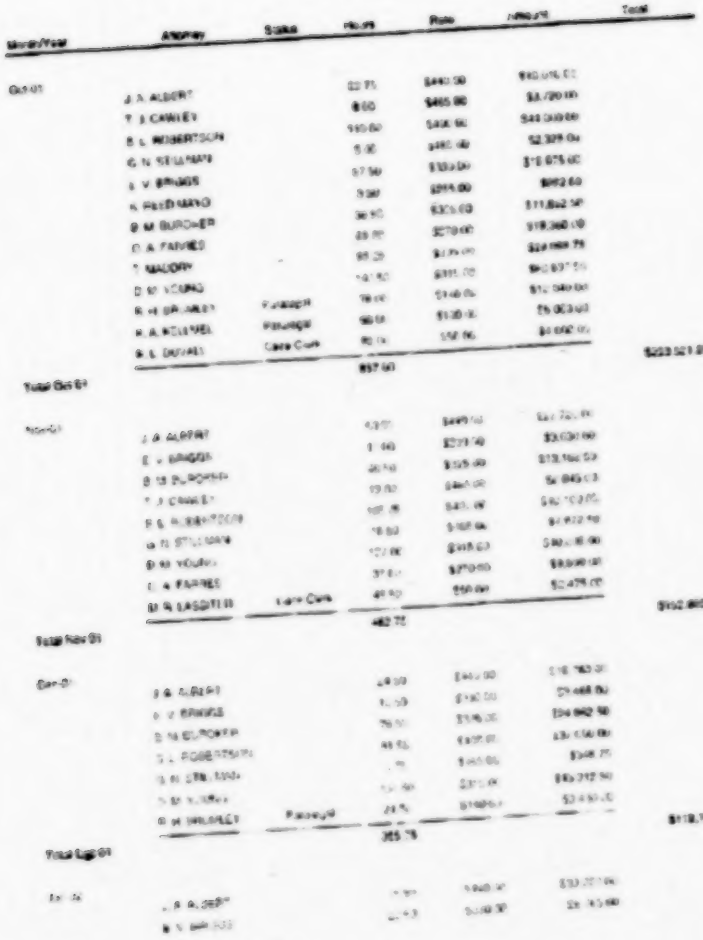

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	R. M. BURCKER		76.75	$325.00	$24,943.75	
	T. J. CAWLEY		17.50	$465.00	$8,137.50	
	S. L. ROBERTSON		158.00	$400.00	$63,200.00	
	G. N. STILLMAN		14.25	$465.00	$6,626.25	
	D. M. YOUNG		164.75	$315.00	$51,908.25	
	O. A. FARRES		112.75	$270.00	$30,337.50	
	R. H. BRUMLEY	Paralegal	72.75	$140.00	$10,185.00	
	K. L. DUVALL	Paralegal	30.25	$50.00	$1,512.50	
	K. A. KELLMEL	Paralegal	52.50	$100.00	$5,250.00	
Total Jan 02			785.00			$242,043.75
Feb 02						
	J. A. ALBERT		147.00	$440.00	$64,680.00	
	E. V. BRIGGS		22.50	$330.00	$7,425.00	
	D. M. BURCKER		174.50	$325.00	$56,675.00	
	T. J. CAWLEY		21.25	$465.00	$9,881.25	
	S. L. ROBERTSON		148.00	$400.00	$59,200.00	
	G. N. STILLMAN		13.25	$465.00	$6,161.25	
	D. M. YOUNG		133.50	$315.00	$41,927.50	
	O. A. FARRES		126.25	$270.00	$34,087.50	
	[illegible]		99.25	$325.00	$19,298.25	
	S. L. SPALDING		23.00	$315.00	$16,985.00	
	S. M. ADAMS	Paralegal	129.50	$80.00	$10,040.00	
	R. H. BRUMLEY	Paralegal	180.75	$140.00	$25,305.00	
	K. L. DUVALL	Paralegal	133.75	$50.00	$6,687.50	
	K. A. KELLMEL	Paralegal	107.50	$100.00	$10,750.00	
Total Feb 02			1479.00			$369,930.25
Mar 02						
	J. A. ALBERT		142.50	$440.00	$62,700.00	
	E. V. BRIGGS		85.50	$330.00	$28,545.00	
	D. M. BURCKER		194.50	$325.00	$63,212.50	
	T. J. CAWLEY		22.00	$465.00	$10,230.00	
	S. L. ROBERTSON		178.50	$400.00	$71,400.00	
	G. N. STILLMAN		28.50	$465.00	$13,252.50	
	D. M. YOUNG		194.50	$315.00	$61,267.50	
	O. A. FARRES		119.50	$270.00	$32,265.00	
	[illegible]		43.75	$325.00	$14,218.75	
	S. L. SPALDING		40.75	$315.00	$19,811.25	
	S. M. ADAMS	Paralegal	184.75	$80.00	$14,740.00	
	R. H. BRUMLEY	Paralegal	214.50	$140.00	$30,030.00	
	K. L. DUVALL	Paralegal	193.50	$50.00	$9,675.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	K. A. KELLMEL	Paralegal	155.50	$100.00	$15,550.00	
	G. B. HARRIS	Paralegal	74.00	$140.00	$10,360.00	
	T. M. MCKENNEY	Case Clerk	88.75	$85.00	$7,245.25	
Total March 02			2304.00			$482,343.75
April 02						
	J. A. ALBERT		268.50	$450.00	$120,825.00	
	E. V. BRIGGS		91.75	$345.00	$31,883.75	
	R. M. BURCKEN		247.75	$335.00	$82,996.25	
	C. C. CAMPBELL		132.75	$440.00	$58,410.00	
	T. J. CAWLEY		41.00	$485.00	$19,885.00	
	S. L. ROBERTSON		191.00	$410.00	$77,930.00	
	T. J. SCOTT, JR.		9.50	$465.00	$4,422.50	
	G. N. STILLMAN		82.50	$455.00	$37,432.50	
	D. M. YOUNG		169.25	$315.00	$53,613.75	
	J. F. BURGHARDT		20.25	$310.00	$6,277.50	
	G. A. FARRES		35.25	$260.00	$9,870.00	
	L. E. LAMBERT		23.50	$335.00	$9,862.50	
	J. D. LINK		115.50	$280.00	$32,340.00	
	M. F. PHELPS		112.25	$250.00	$28,062.50	
	S. M. ADAMS	Paralegal	145.75	$85.00	$12,473.75	
	R. H. BRUNLEY	Paralegal	141.75	$150.00	$21,262.50	
	K. L. DRYALL	Paralegal	140.50	$65.00	$9,507.50	
	K. A. KELLMEL	Paralegal	140.75	$135.00	$19,018.75	
	C. STARKE	Paralegal	142.25	$50.00	$7,112.50	
	T. GRAVES	Case Clerk	107.00	$50.00	$5,350.00	
	A. EPPS	Case Clerk	86.00	$45.00	$3,870.00	
	M. R. LASSITER	Case Clerk	113.00	$65.00	$7,345.00	
Total April 02			2594.75			$601,826.25
May 02						
	J. A. ALBERT		220.50	$450.00	$112,725.00	
	E. V. BRIGGS		125.00	$345.00	$42,435.00	
	R. M. BURCKEN		241.75	$335.00	$82,936.25	
	C. C. CAMPBELL		216.50	$440.00	$94,520.00	
	T. J. CAWLEY		49.25	$485.00	$23,883.75	
	S. L. ROBERTSON		175.00	$410.00	$72,350.00	
	G. N. STILLMAN		128.25	$455.00	$58,336.25	
	D. M. YOUNG		209.50	$315.00	$65,992.50	
	K. REEDMAYO		11.75	$305.00	$3,112.75	
	J. F. BURGHARDT		18.25	$310.00	$13,717.50	
	G. A. FARRES		179.25	$290.00	$36,190.25	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	J. D. [illegible]		153.25	$280.00	$42,910.00	
	N. P. PHELPS		104.00	$240.00	$24,960.00	
	Y. LOPEZ		54.00	$255.00	$13,770.00	
	S. V. ADAMS	Paralegal	139.25	$95.00	$13,228.75	
	R. H. BRADLEY	Paralegal	185.50	$150.00	$27,825.00	
	P. L. DUVALL	Paralegal	139.50	$95.00	$13,252.50	
	K. A. KELLMEL	Paralegal	169.50	$105.00	$17,797.50	
	T. GRAVES	Case Clerk	182.00	$50.00	$9,100.00	
Total May 03			7801.50			$772,843.75
Jun 03						
	J. A. ALBERT		216.00	$450.00	$97,200.00	
	E. V. BRIGGS		169.50	$345.00	$58,477.50	
	B. M. BURCHER		253.25	$335.00	$84,838.75	
	C. C. CARROLL		174.25	$440.00	$76,670.00	
	T. J. CAVALEY		297.50	$495.00	$52,137.50	
	S. L. ROBERTSON		199.00	$495.00	$99,256.00	
	T. J. SCOTT, JR.		5.25	$495.00	$2,667.50	
	S. N. STELLMAN		165.25	$445.00	$46,011.25	
	D. M. YORRO		293.25	$395.00	$18,826.75	
	K. REGUAYO		8.25	$265.00	$1,565.25	
	J. F. PURCHIANDT		37.75	$360.00	$21,702.50	
	O. A. PARDES		185.25	$290.00	$43,470.00	
	R. T. [illegible]		56.25	$260.00	$12,697.50	
	J. D. [illegible]		68.50	$270.00	$18,490.00	
	N. J. LUTMAN		15.00	$95.00	$12,750.00	
	M. P. PHELPS		137.75	$240.00	$34,312.50	
	S. L. SPALDING		70.00	$195.00	$13,650.00	
	S. M. ADAMS	Paralegal	145.25	$95.00	$13,791.25	
	R. O. BRUNA-CY	Paralegal	239.00	$150.00	$35,850.00	
	R. T. BRYAN	Paralegal	171.50	$95.00	$16,292.50	
	K. A. KELLMEL	Paralegal	165.00	$105.00	$17,325.00	
	C. STAGNI	Paralegal	96.75	$95.00	$9,191.25	
	R. T. TALASTAS	Paralegal	329.25	$95.00	$31,278.75	
	A. GUSTAFSON	Case Clerk	138.00	$50.00	$6,900.00	
	R. SOR	Case Clerk	147.75	$50.00	$7,387.50	
	T. GRAVES	Case Clerk	189.00	$50.00	$9,450.00	
	L. A. SABLATT	Case Clerk	83.00	$50.00	$4,150.00	
Total June 03			3476.75			$894,002.50
Jul 03						
	J. A. ALBERT		198.00	$450.00	$89,100.00	

Month/Year	Attorney	State	Hours	Rate	Amount	Total
	[illegible]		82.50	[illegible]	[illegible]	
	[illegible]		344.00	[illegible]	[illegible]	
	[illegible]		103.75	[illegible]	[illegible]	
	[illegible]		79.50	[illegible]	[illegible]	
	[illegible]		171.00	[illegible]	[illegible]	
	[illegible]		129.50	[illegible]	[illegible]	
	[illegible]		136.75	[illegible]	[illegible]	
	[illegible]		23.75	[illegible]	[illegible]	
	[illegible]		20.75	[illegible]	[illegible]	
	[illegible]		39.75	[illegible]	[illegible]	
	[illegible]		99.25	[illegible]	[illegible]	
	[illegible]		24.00	[illegible]	[illegible]	
	[illegible]	Paralegal	40.00	[illegible]	[illegible]	
	[illegible]	Paralegal	173.75	[illegible]	[illegible]	
	[illegible]	Paralegal	103.75	[illegible]	[illegible]	
	[illegible]	Paralegal	159.50	[illegible]	[illegible]	
	[illegible]	Paralegal	119.00	[illegible]	[illegible]	
	[illegible]	Paralegal	123.75	[illegible]	[illegible]	
	[illegible]	Law Clerk	178.25	[illegible]	[illegible]	
	[illegible]	Case Clerk	191.75	[illegible]	[illegible]	
	[illegible]	Case Clerk	229.00	[illegible]	[illegible]	
	[illegible]	Case Clerk	134.00	[illegible]	[illegible]	
Total Aug 02			2686.75			[illegible]
Aug 02						
	[illegible]		30.25	[illegible]	[illegible]	
	[illegible]		24.00	[illegible]	[illegible]	
	[illegible]		80.00	[illegible]	[illegible]	
	[illegible]		14.25	[illegible]	[illegible]	
	[illegible]		9.25	[illegible]	[illegible]	
	[illegible]		84.75	[illegible]	[illegible]	
	[illegible]		16.75	[illegible]	[illegible]	
	[illegible]		146.00	[illegible]	[illegible]	
	[illegible]		1.25	[illegible]	[illegible]	
	[illegible]		69.25	[illegible]	[illegible]	
	[illegible]		49.75	[illegible]	[illegible]	
	[illegible]	Paralegal	79.00	[illegible]	[illegible]	
	[illegible]	Paralegal	99.50	[illegible]	[illegible]	
	[illegible]	Case Clerk	43.00	[illegible]	[illegible]	
	[illegible]	Case Clerk	118.25	[illegible]	[illegible]	
Total Aug 02			995.00			[illegible]

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
Sep-02						
	J. A. ALBERT		87.63	$450.00	$39,375.00	
	E. V. BRIGGS		41.50	$345.00	$14,317.50	
	B. M. BURCKER		121.75	$335.00	$40,796.25	
	T. J. CAWLEY		11.75	$485.00	$5,696.75	
	S. L. ROBERTSON		106.25	$410.00	$43,562.50	
	T. J. SCOTT JR		4.50	$485.00	$2,182.50	
	G. N. STILLMAN		51.25	$465.00	$23,831.25	
	D. M. YOUNG		169.00	$315.00	$52,920.00	
	C. CUNEO		28.00	$250.00	$7,140.00	
	O. A. FARRES		118.50	$280.00	$33,400.00	
	J. D. LINK		32.50	$280.00	$9,100.00	
	R. H. BRUMLEY	Paralegal	64.00	$150.00	$9,600.00	
	K. A. MARTIN	Paralegal	30.75	$65.00	$2,193.75	
	L. A. MARLATT	Case Clerk	27.25	$50.00	$1,362.50	
Total Sept 02			897.50			$285,530.00
Oct 02						
	J. A. ALBERT		87.00	$450.00	$39,150.00	
	B. M. BURCKER		139.00	$335.00	$46,565.00	
	T. J. CAWLEY		14.25	$485.00	$6,911.25	
	S. L. ROBERTSON		137.00	$410.00	$56,170.00	
	T. J. SCOTT JR		8.75	$485.00	$4,243.75	
	G. N. STILLMAN		47.25	$465.00	$21,971.25	
	D. M. YOUNG		196.00	$315.00	$58,500.00	
	O. A. FARRES		54.50	$280.00	$15,260.00	
	R. H. BRUMLEY	Paralegal	58.00	$150.00	$8,700.00	
	K. L. DUVALL	Paralegal	40.00	$65.00	$2,600.00	
	K. A. MARTIN	Paralegal	49.50	$65.00	$2,762.50	
	L. A. MARLATT	Case Clerk	22.00	$50.00	$1,100.00	
Total Oct 02			838.25			$264,023.75
Nov-02						
	J. A. ALBERT		143.00	$450.00	$64,575.00	
	B. M. BURCKER		164.25	$335.00	$55,023.75	
	T. J. CAWLEY		8.75	$485.00	$4,243.75	
	S. L. ROBERTSON		175.00	$410.00	$70,180.00	
	T. J. SCOTT JR		8.50	$485.00	$2,182.50	
	G. N. STILLMAN		67.00	$465.00	$31,185.00	
	D. M. YOUNG		170.75	$315.00	$55,876.25	
	M. P. PHELPS		65.00	$250.00	$16,250.00	
	R. H. BRUMLEY	Paralegal	43.00	$150.00	$6,450.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	K. A. KELLMEL	Paralegal	19.50	$105.00	$2,047.50	
	L. A. MARLATT	Case Clerk	13.75	$50.00	$687.50	
Total Nov 02			877.00			$308,401.25
Dec 02						
	J. A. ALBERT		101.50	$450.00	$45,675.00	
	B. M. BURCKER		149.25	$325.00	$48,996.75	
	T. J. CAWLEY		2.75	$485.00	$1,091.25	
	S. L. ROBERTSON		122.00	$410.00	$50,020.00	
	T. J. SCOTT JR		7.25	$485.00	$3,516.25	
	G. N. STILLMAN		89.25	$465.00	$29,411.25	
	D. M. YOUNG		167.75	$315.00	$52,841.25	
	M. P. PHELPS		73.75	$250.00	$17,687.50	
	S. M. ADAMS	Paralegal	29.25	$85.00	$2,231.25	
	R. H. BRUMLEY	Paralegal	41.75	$150.00	$6,262.50	
	K. A. KELLMEL	Paralegal	46.00	$105.00	$4,830.00	
	K. A. MARTIN	Paralegal	50.50	$65.00	$3,282.50	
	L. A. MARLATT	Case Clerk	53.25	$50.00	$2,662.50	
Total Dec 02			901.75			$269,570.00
Jan 03						
	J. A. ALBERT		67.50	$450.00	$39,075.00	
	E. V. BRIGGS		49.75	$345.00	$14,088.75	
	B. M. BURCKER		139.75	$335.00	$46,816.25	
	T. J. CAWLEY		21.25	$485.00	$10,306.25	
	S. L. ROBERTSON		118.75	$410.00	$48,482.50	
	T. J. SCOTT JR		5.00	$485.00	$2,425.00	
	G. N. STILLMAN		58.00	$425.00	$26,240.00	
	D. M. YOUNG		131.25	$315.00	$41,243.75	
	O. A. FARRES		62.50	$280.00	$17,360.00	
	S. M. ADAMS	Paralegal	29.00	$85.00	$2,465.00	
	R. H. BRUMLEY	Paralegal	35.00	$150.00	$5,250.00	
	K. A. KELLMEL	Paralegal	50.50	$105.00	$5,302.50	
	L. A. MARLATT	Case Clerk	41.25	$50.00	$2,062.50	
Total Jan 03			877.50			$280,167.50
Feb 03						
	J. A. ALBERT		126.50	$450.00	$56,475.00	
	E. V. BRIGGS		35.00	$345.00	$12,075.00	
	B. M. BURCKER		107.75	$335.00	$35,928.75	
	T. J. CAWLEY		63.50	$485.00	$30,797.50	
	S. L. ROBERTSON		126.50	$410.00	$51,860.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	R. N. STILLMAN		61.75	$465.00	$28,713.75	
	D. M. YOUNG		152.75	$315.00	$48,116.25	
	O. A. FARRES		52.25	$280.00	$14,630.00	
	J. D. LINK		44.25	$280.00	$12,390.00	
	R. H. BRUMLEY	Paralegal	88.50	$150.00	$10,275.00	
	K. A. KELLMEL	Paralegal	69.75	$105.00	$7,323.75	
	L. A. MARLATT	Case Clerk	98.50	$50.00	$4,925.00	
Total Feb 00			1008.00			$313,319.00
Mar 00						
	J. A. ALBERT		162.50	$480.00	$73,125.00	
	E. V. BRIGGS		113.50	$345.00	$39,157.50	
	B. M. BURCKER		241.50	$335.00	$80,902.50	
	T. J. CAWLEY		76.50	$495.00	$37,102.50	
	S. L. ROBERTSON		587.75	$410.00	$16,977.50	
	T. J. SCOTT, JR.		3.00	$495.00	$1,155.00	
	G. N. STILLMAN		159.25	$465.00	$87,536.25	
	D. M. YOUNG		204.50	$315.00	$64,417.50	
	C. CUNEO		127.25	$255.00	$34,398.75	
	O. A. FARRES		120.25	$280.00	$33,670.00	
	J. D. LINK		73.75	$280.00	$20,650.00	
	W. J. LITTMAN		99.25	$220.00	$21,835.00	
	M. P. PHELPS		106.75	$250.00	$26,687.50	
	S. M. ADAMS	Paralegal	111.25	$95.00	$9,711.25	
	R. H. BRUMLEY	Paralegal	195.25	$150.00	$27,787.50	
	J. GERKEN	Paralegal	81.00	$125.00	$10,125.00	
	F. A. KELLMEL	Paralegal	126.00	$105.00	$13,230.00	
	L. A. MARLATT	Case Clerk	202.25	$50.00	$10,112.50	
Total March 00			2423.50			$469,481.25
Apr 00						
	J. A. ALBERT		293.00	480.00	$101,400.00	
	E. V. BRIGGS		187.00	360.00	$67,320.00	
	B. M. BURCKER		294.50	350.00	$102,420.00	
	T. J. CAWLEY		146.25	500.00	$74,125.00	
	E. V. MADISON, P.		38.75	350.00	$11,812.50	
	S. L. ROBERTSON		240.50	435.00	$104,400.00	
	T. J. SCOTT, JR.		9.25	540.00	$1,025.00	
	G. N. STILLMAN		304.75	495.00	$141,708.75	
	D. M. YOUNG		263.50	315.00	$83,032.50	
	K. REED MAYO		4.25	280.00	$1,190.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	G. A. FARRES		157.50	310.00	$51,225.00	
	M. P. PHELPS		142.25	295.00	$40,541.25	
	L. B. ZACKS		90.50	290.00	$27,115.00	
	S. M. ADAMS	Paralegal	167.60	95.00	$15,865.00	
	R. H. BRUMLEY	Paralegal	137.75	155.00	$21,351.25	
	K. A. KELLMEL	Paralegal	223.75	110.00	$24,612.50	
	L. A. MARLATT	Case Clerk	285.25	65.00	$13,541.25	
Total April 03			3012.25			$233,235.00
May 03						
	J. A. ALBERT		224.00	$460.00	$103,040.00	
	F. V. BRIGGS		74.50	$380.00	$28,520.00	
	B. M. BURCHER		229.50	$300.00	$68,460.00	
	T. J. CAWLEY		60.00	$500.00	$30,000.00	
	S. L. ROBERTSON		219.60	$435.00	$95,305.00	
	G. N. STILLMAN		246.25	$405.00	$114,041.25	
	D. M. YOUNG		244.25	$315.00	$76,936.75	
	M. P. PHELPS		221.75	$295.00	$63,198.75	
	L. B. ZACKS		212.50	$290.00	$61,615.00	
	R. H. BRUMLEY	Paralegal	126.25	$155.00	$19,568.75	
	K. A. KELLMEL	Paralegal	224.25	$110.00	$24,667.50	
	L. A. MARLATT	Case Clerk	250.75	$65.00	$16,299.75	
5/1/03 - 5/27/03			2227.00			$712,213.75
Total			32510.75		$9,190,817.50	$9,190,817.50

Mercexchange
Expenses

Description	H&W Total
Copying/Scanning	212,001.83
Outside Copying	60,463.77
Telephone	2,131.64
Online Research	40,275.14
Delivery Service	30,273.32
Postage	1,042.69
Local Travel	5,656.82
Out-of-Town Travel	65,506.34
Meals	16,932.05
Subpoena Fees	718.00
Deposition Costs	14,994.04
Trial Transcripts	100,748.57
Lit Support Vendors	265,129.22
Experts	652,455.44
Local Counsel	11,397.99
TOTAL	**1,479,726.86**
Expert Witness Fees:	**627,686.75**
	852,039.91

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC. AND HALF.COM, INC.,

Defendants.

DEFENDANTS' OPPOSITION TO PLAINTIFF MERCEXCHANGE, LLC'S MOTION FOR ENTRY OF A PERMANENT INJUNCTION ORDER

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I. INTRODUCTION

Defendants eBay Inc. and Half.com, Inc. respectfully oppose plaintiff MercExchange's motion for entry of a permanent injunction. As set forth in defendants' post-trial briefs, eBay and Half.com request the Court grant JMOL for defendants, and in the alternative, request a conditional new trial order. Dkt. 555-560. In addition, MercExchange's proposed injunction is inappropriate for the following reasons:

- First, MercExchange's proposed injunction is vague and overly broad, sad impermissibly seeks to restrain lawful-and *non-infringing-activity*. While an injunction must be narrowly tailored to address specific infringing activity, the one proposed here is divorced from the patents' claim limitations and the Court's *Markman* decision, and improperly *paraphrases* the claims, sweeping is noninfringing embodiments. This would invite MercExchange to seek unwarranted contempt sanctions for conduct that would *not amount to infringement*. The courts have categorically rejected such an approach before, and it should be rejected here.

- Second, while MercExchange's proposed injunction fails to provide sufficient guidance for design-around and contempt purposes, in conflict with Federal Circuit authority, the proposed injunction includes *additional restrictions* that are unduly onerous. The proposed injunction seeks to require eBay and Half.com to *prove to the Court and MercExchange, in advance, that future instantiations*, of their operations—even if they are *unrelated to the issues adjudged in this case-do not* fall within the scope of the claims. No authority supports MercExchange's outrageous request, which would *bury* the Court with *computer source*

code, engineering documents, and claim charts for over a decade. Moreover, MercExchange's injunction would *not minimize the possibility of future contempt proceedings, it would multiply them*, and simply confirm the proposed injunction's overbreadth.

- Third, contrary to MercExchange's argument, an injunction is not automatic, particularly under the circumstances here. On balance, the equities do not favor issuance of an injunction here, and given the closeness of the infringement and validity-which have not been clearly established-irreparable harm should not *be* presumed. MercExchange will not be irreparably harmed in the absence of an injunction. MercExchange has extensively sought to license its patents, and has touted to the media that it is not interested in enforcement actions, planning instead to sell off its patents. MercExchange can be adequately compensated by damages, and the public interest does not favor enjoining business methods covered by dubious patents. Given the breadth of the injunction sought, the balance of the hardships tips in favor of eBay and Half.com, and injunctive relief is not appropriate.

eBay and Half.com, therefore, respectfully request that the MercExchange's motion be denied. Should the Court conclude that some form of injunctive relief is appropriate, defendants—respectfully request that any injunction be narrowly tailored, on specific terms, to remove any threat of unwarranted contempt proceedings. *See, e.g.*, Sections II.B., IV., *infra*.

II. MERCEXCHANGE'S PROPOSED INJUNCTION IS VAGUE AND OVERLY BROAD, AND IMPERMISSIBLY SEEKS TO RESTRAIN LAWFUL—AND NONINFRINGING—ACTIVITY.

A. An injunction must be narrowly tailored to specific infringing activity.

Rule 65(d) of the Federal Rules of Civil Procedure requires that "[e]very order granting - an injunction ... shall set forth the reasons for its issuance; shall be specific is terms; shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained." In crafting injunctive relief, the Court "must narrowly tailor an injunction to fit the specific adjudged violations," because "an injunction cannot impose unnecessary restraints on lawful activity." *Riles v. Shell Exploration & Prod Co., 298 F.3d* 1302, 1311 (Fed. Cir. 2002) (citations omitted). As a result, "[a]n injunction is only proper to the extent it is to prevent the violation of any right secured by patent." *Johns Hopkins Univ v. CellPro. Inc.*, 152 F.3d 1342, 1365 (Fed. Cit. 1998) (internal quotation marks omitted); *accord . Joy Techs., Inc. v. Flab, Inc.*, 6 F.3d 770, 777 (Fed. Cir. 1993) (vacating injunction that "precludes [defendant] from activities that are not necessary to prevent infringement of the patented process"); *Gemveto Jewelry Co. v. Jeff Cooper Inc.*, 800 F2d 256, 259 (Fed Cir. 1986) ("[I]njunctive relief should be narrowly tailored to fit the specific legal violations.").

B. MercExchange's proposed injunction seeks to enjoin acts that *are not* covered by the `265 and `176 patents.

1. MercExchange's proposed injunction ignores the Court's *Markman* decision, paraphrasing some, but not all, of the claim limitations required for infringement

MercExchange's proposed injunction fails to provide sufficient specificity of the acts sought to be enjoined.[1] The proposed injunction fails to embrace, let alone mention, the Court's *Markman* decision, and in essence, asks the Court to ignore the work that the Court put into that decision. In addition, paragraphs (1)-(4) of the proposed injunction, (Proposed Order at 1-2), attempt to *summarize* the claimed features sought to be enjoined, overlooking the specific `265 and `176 claim limitations required for infringement. The proposed injunction thereby exceeds the proper scope of the `265 and `176 claims and impermissibly to seeks to enjoin *noninfringing* conduct. The proposed injunction is thus improper on its face.

For example, in *Applera Corp. v. Micromass UK Ltd.* 204 F. Supp. 2d 724, 784 (D. Del. 2002), the district court was confronted with precisely the same scenario, and correctly concluded that the proposed injunction was overly broad, and thus, improper:

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[1] eBay and Half.com maintain that they do not meet the limitations required by the *claims of* the '265 and '176 patents, for the reasons set forth in the respective '265 and `176 JMOL/motions for new trial. *See* Dkt. Nos. 558 at 2-18 and 556 at 2-11. Aside from the specific examples discussed herein, the proposed injunction overlooks numerous other claim limitations, such as the trusted network limitations and the '265 notification module, in its sweeping attempt to enjoin lawful and noninfringing activities. These examples are merely exemplary, and not exhaustive.

> By attempting to summarize the salient features of the [patent in suit], the proposed injunction raises the possibility that [defendant] *could be subject to contempt sanctions* for producing a mass spectrometer *meeting the description of the order, but not possessing all the claim limitations of the (patent in suit)*. Because such a process would subvert the infringement inquiry on any new [defendant] products, the court will limit its injunction to the two products accused in this litigation. *Id.* (emphasis added).

Any injunction, if at all, must set forth all of the properly interpreted claims in the order itself. *Applera*, 204 F. Supp. 2d at 784; FED. R. CIV. P. 65(d) (emphasis added) (the injunction "shall describe in reasonable detail, and *not by reference to the complaint or other document*, the act or acts sought to be restrained.").

a. The Court's *Markman* decision limited all of the claims to a trusted intermediary/network, and excluded person-to-person systems.

In its comprehensive, *fifty-six* page *Markman* opinion and order, the Court correctly concluded that MercExchange's patent application *taught away* from a person-to-person system, and interpreted the '265 "electronic market" and the claimed '051 and '176 "electronic auctions," accordingly:

> As the defendant has pointed out, through these and other examples in the specification, the inventor did not disclose a *person-to-person transaction. Everything disclosed in the '051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the title ,and make a commission based on the sales price. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment.* The Federal Circuit has repeatedly held that "when the 'preferred

> embodiment' is described as the invention itself; the claims are not entitled to a broader scope than that embodiment." *SciMed*, 242 Fad at 1341 (Fed. Cir. 2001) (quoting *Wane Labs*, 197 F.3d at 1383). Furthermore, "[w]here the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, road without reference to the specification, might be considered broad enough to encompass the feature in question " *Id. In this case, the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary. As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification.* Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

Dkt. 207 at 12 (emphasis added). The *Markman* Order expressly, and correctly, held that the `265 "electronic market" and the `176 "electronic market" "electronic auction" terms did not encompass person-to-person systems, and were limited to trusted networks.[2] *See* Dkt. 207 at 28-29 (for the `176: "The inventor's intention to create a network of

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[2] At *Markman*, the parties were *not* merely arguing whether MercExchange's patents should be confined to systems that are "trusted" in some abstract sense. *Every* business wishes to be "trusted" at some level. Rather, the parties were arguing whether the claimed `265 "electronic market" could be expanded to cover person-to-person systems, such as eBay and Half corn, which do not consummate transactions and transfer ownership, but rather, leave that to buyers and sellers to resolve. *See, e.g.*, Dkt. 179 at 43-44 (describing "that kind of person-to-person individual network which was so critical to the success of eBay"); id at 43 ("a person-to-person auction which is may the model that eBay has; that is, individual sellers can sell through the eBay service to individual buyers."; *id.* ("By November of 1997, *eBay really won the day because eBay had adopted the person-to-person model.*") (emphasis added).

trusted consignment nodes is clear from the specification. The inventor cannot later claim away from what he has disclosed in order to broaden his invention") and 35-36 (for the `265: "As the Court has held, the inventor envisioned a trusted network to avoid the problems of early Internet transactions. The trusted aspect of his invention was not merely a preferred embodiment, as the plaintiff argues; it was the focus of his invention."). Three days after the *Markman* Order, the Court reinforced its *Markman* order, stating that a network *of independent retailers*, comprising the MESCH system, "did not anticipate a trusted network.[3] Dkt. 212 at 12 n.2.

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[3] Several months after the *Markman* order, MercExchange asked the Court for reconsideration, contending that the Court's *Markman* decision failed to define "trusted network," "trusted system," and 'person-to-person system," and thus, violated the "fundamental due process" rights of *both parties* Dkt. 271 at 15-20 (emphasis added). The Court rejected MercExchange's request to reconsider *Markman* agreed with eBay and criticized MercExchange for "launch[ing] into a diatribe regarding the court's Opinion, objecting to the claim construction premise that the inventor's intended his system to occur over a trusted network or with a trusted intermediary." Dkt. 274 at 7. According to the Court, MercExchange's belated argument was "completely inappropriate" and "completely disingenuous." Dkt. 274 at 7-8. Furthermore, the Court noted that "the filing of any further motions to reconsider is this case without the requisite showing of new evidence or a change in the law *will result* in *the* imposition of *attorneys' fees and costs*." Dkt. 274 at 9-10 (emphasis added). Again, the Court confirmed that Mr. Woolston was not entitled to claim a person-to-person system. Dkt. 250 at 3 (emphasis added) (Most importantly, the court *held* that the auction system envisioned by the inventor was "a process over a trusted network, or with a trusted intermediary," *and not a person-to-person based system. See* Dkt. 207 at 12-13.).

b. The proposed injunction fails to distinguish between trusted intermediaries/networks and person-to-person systems, just as MercExchange's experts did at trial.

The proposed injunction fails to embrace the Court's *Markman* decision, and does not specify, much less mention, any distinction between trusted intermediaries/networks and person-to-person systems-the latter of which cannot be enjoined. While the Court's *Markman* order adequately specified the requirements of the patent's trusted network, MercExchange refuses, as it did at trial, to acknowledge the Court's decision. Thus, MercExchange's proposed injunction suffers from the same flaw as the jury instructions MercExchange demanded and received at trial-it allows MercExchange to expand the patents to cover noninfringing and undefined conduct. *See* Dkt. 550-564.

MercExchange's expert, Q. Todd Dickinson, admitted at trial that the patents must have boundaries to be enforced:

> Q Generally, what is now your understanding of what the property right is referred by the patent?
>
> A It is indeed a property right. It is intended to *set out the boundaries, the metes and bounds*, if you will, of what the invention is. The patent is intended to provide *the legal basis for enforcing the right* that we are talking about.
>
> Q Does a patent have—
>
> A It's kind of like a deed to real estate or real property. Like a deed speaks to the boundaries of your real property, the patent speaks to the boundaries of your intellectual property, boundaries of your patent.

Tr. 1133:7-17 (emphasis added); *see also Tr.* 1218:1-13.

Because MercExchange and its experts were attempting to stretch the claims to cover person-to-person systems, they were unable to articulate the boundaries of the '265 and '176 patents. For example, Dr. Frieder, attempting to stretch the '176 claims beyond their proper scope, argued that trust is a "feeling" and a goal:

> Q By the way, how would someone of ordinary skill in the art know what is a trusted network within Mr. Woolston's patent and what is not a trusted network within the meaning of his patent?
>
> A Trust is—by the way, trust is—and that question is *very difficult to answer because trust* is *not an absolute. Trust is a goal.* As I said, it's in order to place confidence. So if you get the feeling that you are secure, you can trust it, then it is a question of trust. And there are many measures that demonstrate to increase your comfort level of trust. And if you have these things, then you will probably be trusted.
>
> Q Do you have anything further to add to that?
>
> A No.

Tr. 1681:7-20; see also Tr. 1680:141684:15 (Dr. Frieder acknowledging that "there is going to be a difference that varies" between individuals as to what is trusted).

The parties were not arguing out a "feeling" at *Markman*. Rather, the parties argued, and the Court determined, that the '265 and '176 claims were limited to a trusted network that is capable of consummating the transaction between buyer and seller-unlike person-to-person systems.

Similarly, Dr. Palmer attempted to expand the claims beyond their proper scope, but could not explain the boundaries of the claims.

> Q I'm asking you can you articulate a set of requirements so that this jury can understand whether

someone is a trusted network or someone is not a trusted network? Can you articulate that for us?

A *I don't think that the issue is cut and dry.* I think it is a situation where you have got multiple pieces to the invention in the '265,'176 patents. So I think what you are asking me to do is identify a single instantiation

Tr. 1300:20-1301:21(emphasis added).

As a matter of law, an injunction *must be* "cut and dry"—only infringing acts may be enjoined, and the defendants need to know whether an activity is within the claims and the order, or whether it is outside the claims and the order. *See, e.g., Riles, 298* F.3d at 1311; *Applera 204* F. Supp. 2d at 784. The Court's *Markman* ruling left no doubt that person-to-person systems are *not* covered by the claims, and both sides recognized that eBay and Half.com are person-to-person systems, which do not consummate the ultimate transaction. Unfortunately, MercExchange argued a nebulous, improper claim construction at trial, and now seeks an improper, vague injunction based on it. Under MercExchange's improper construction of the claims, MercExchange's own experts could not determine whether a system practiced the claim elements.

MercExchange's proposed injunction, like the testimony of its experts, fails to articulate whether a system falls within the scope of the claims, or not. In essence, MercExchange is asking the Court to eliminate the entire context of the *Markman* ruling, and issue an injunction that MercExchange itself argued would violate "fundamental due process," because it does not adequately define what is infringing, and what is not. Dkt. 271 at 15-20. That is clearly improper, and MercExchange's request for an overly-broad and unduly-vague injunction should be denied. The following examples highlight other flaws in the overbreadth of the proposed order.

2. The paraphrased claim language fails to include the '265 transaction processor's "transfer ownership"/"notify the owner" limitations.

In addition to ignoring the trusted network/person-to-person distinction, paragraphs (1) and (2) seek to permanently enjoin eBay and Half.com from indirectly or directly conducting activities over their online systems, by attempting to summarize other limitations found in independent claims 8, 15 and 26 of the '265 patent. (Proposed Order at 1-2.). The activities sought to be enjoined in these paragraphs (1) and (2), however, merely reference an unclaimed "payment processor," without any mention of the transaction processor, and its required functions, which are required by the claims. For example, asserted claims 8-11, 13-18, and 20-22 of the '265 patent *explicitly* require a "transaction processor" which must "transfer the ownership of said good for sale" by "modifying a data record". Similarly, claims 26-29 also require the "transaction processor" to "notify the owner" by "modifying a data record." The '265 claim language thus expressly requires a "*transaction* processor" that transfers ownership or is otherwise able to "notify the owner—in contrast to *a payment* processor that does not know who the owner is."

When the claims are read pursuant to the Court's *Markman* decision, it is clear that the mere use of a payment processor (but not the claimed transaction processor, or its ownership-related functions) would not meet the- claim limitations, and would fall outside the claim limitations. The proposed injunction thus impermissibly attempts to enjoin lawful activities and is not narrowly tailored.

In fact, if the proposed injunction were to issue, it would invite MercExchange to argue that eBay and Half.com were in contempt of the order, even if eBay and Half.com users *explicitly* agreed to transfer ownership themselves, pursuant to the UCC (*i.e.*, upon delivery)—thereby eliminating

MercExchange's frivolous, but ultimately successful before the jury, argument that the UCC default rules do not apply to the "virtual world."[4] As a result, any injunction, if at all, must focus on the claims, and clearly distinguish between infringing and noninfringing acts.

3. The paraphrased claim language fails to include the '265 terminal authorization limitations.

The proposed injunction likewise fails to recite the '265 claim limitations requiring terminal authorization, as required by claims 8, 10, 11, 13-15, 17, 18, 20-22, and 26 of the '265 patent. The *Markman* Order held, consistent with the closed network aspect of the MercExchange patent, that the '265 patent claims verify *terminals* not *users*: "The claim only verifies that the posting terminal apparatus is an authorized user, *not the person using the posting terminal apparatus*." Dkt. 207 at 47 (emphasis added). The *Markman* ruling correctly explained: "The ordinary meaning of the claim term reveals that *it is only the posting terminal apparatus, and not the user, that is verified .... as an authorized user of the market apparatus*."[5] Dkt. 207 at 48 (emphasis added).

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[4] Similarly, if eBay and Half.com were to add language to their user agreement to clarify that they do not require users to be owners of goods, and do not track ownership of goods, eBay and Half.com's operations would be even farther removed from the transaction processor limitations. Yet, MercExchange would undoubtedly argue that such operations still violate the proposed injunction, since the proposed injunction does not specify, let alone mention, that such practices do not meet the claim limitations.

[5] Of course, the jury was not provided with the underlying rationale and reasoning from the Court's *Markman* ruling, and thus, did not have the opportunity to consider the importance of this distinction. The jury never learned that the Court had resolved in eBay's favor the issue of whether the terminal authorization limitation included authorization of the person using the terminal.

While these claims require authorization of terminals, and not users, the proposed injunction fails to recite, let alone mention, this requirement and distinction. A system that does not authorize terminals does not fall within the scope of these claims, and thus, the proposed injunction impermissibly seeks to enjoin lawful activity, regardless of whether terminals are authorized. For example, if eBay and Half.com accepted "Buy It Now" listings from users, *without detecting, using or verifying a user's cookie*, eBay and Half.com would eliminate MercExchange's erroneous infringement arguments, and indisputably would not infringe. Any injunction must confirm that such operations would not fall within the order.[6] The proposed injunction is thus overly broad and vague.

4. The paraphrased claim language fails to include the '265 limitations requiring use and storage of tracking numbers from the market.

Paragraph (3) of the proposed injunction, (Proposed Order at 2), summarizes some, but not all, of the requirements of independent claims 1 and 23 of the '265 patent. This paragraph seeks to enjoin *eBay* from operating a system, or encouraging others to operate a system, but does not focus on all of the claim limitations. For example, claims 1 and 23 require, among other things, generation of a data record for a good sale, storage of that data record at a local storage device on the user's computer, transfer of that data record to the market, receipt of a tracking number from the market, and storage of that tracking number in the same (i.e., said data record) that was previously stored the same local storage

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[6] Similarly, if eBay's API system would accept Buy It Now listings without detection or verification of the API application ID, developer ID or certificate during the listing process, eBay's operations would be further removed from the scope of the claims, yet the proposed injunction does not address the issue at all.

device (i.e., said storage device) on the user's computer.[7] (Dkt. 207 at 42-43.) While such steps are required to infringe the claim, the proposed injunction ignores these and other requirements of the claims, again seeking to enjoin activities that are not covered by the claims.[8] The proposed injunction is, therefore, overly broad and vague.

5. The paraphrased claim language falls to include the '176 limitations for searching for "an item" in a plurality of "electronic markets:"

Paragraph (4) of the proposed injunction, (Proposed Order at 2), seeks to enjoin activities that are outside the scope of the '176 claims. The proposed injunction, for example, seeks to enjoin, generically, the use of a price comparison feature "that utilizes software search agents or other pricing agents to search one or more electronic markets ... for item(s)." *Id.* Such language fails to specify that the search required by the '176 claims must be for single, unique items as Dr. Frieder noted at trial (Tr. 3294:13-18) and set forth in Half.com's renewed Motion for JMOL (Dkt 555 at 3-6), as required by

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[7] The proposed injunction is also vague as to other claim limitations. For instance, while the proposed injunction references a "digital image means," the proposed language is silent as to those means. At *Markman*, the parties disputed those means, and the Court concluded that use, for example, of an image repository does not meet the claim limitations, since pulling images from storage does not involve the act of creating the image, as required by the claim language. (*See* Dkt. 207 at 39.)

[8] In addition, the proposed injunction uses permissive language such as "may be locally connected" and "can receive a tracking code." *See* Proposed Order at 2 l (3). Such vague language is improper, since a system that is capable of performing, but does not actually perform, the claim limitations is not infringing. *See, e.g., High Tech Med. Instrumentation, Inc v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed. M. 1995).

the '176 patent claims, written description and prosecution history.[9]

The proposed language also fails to address the Court's *Markman* Order, which required an "electronic market" to be a "trusted network or system where participants can buy, sell, browse or search for goods online." *See also* Section II.B.1 *supra*. As a result, Half.com should not be enjoined from searching vendors of products that do not meet the Court's definition of "electronic market"—e.g., those that do not permit participants (users of Half.com) from selling on these third-party sites. Again, for these and other reasons, the proposed injunction is overly broad and vague, and seeks to enjoin lawful activities that do not meet the claim limitations.

C. MercExchange's requested injunction fails to provide sufficient guidance for design-around and contempt purposes.

MercExchange's proposed injunction is also flawed because it does not provide any measures for ascertaining in advance of a contempt citation whether proposed changes to defendants' systems would infringe or not. The Federal Circuit has made clear that an enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device. *See, eg., KSM Fastening Sys v. X.A. Jones Co.*, 776 F.2d 1522, 1526 (Fed. Cir. 1985). In *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 479-80 (Fed. Cir. 1993), the Federal Circuit explained its rationale:

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[9] Similarly, the Court noted in its October 21, 2002 Order denying Half.com's Summary Judgment Motion that searches for "words regardless of their context" are not searches for "items". Dkt. 212 at 12. Consequently, any operation by Half com that searches for "words," and not items, would clearly be outside the scope of the '176 patent, although the proposed injunction does not make any such distinction.

In accord with the policy of this rule, the Supreme Court does not countenance overly broad injunctions *due to the threat of costly contempt proceedings for acts unrelated to those originally judged unlawful. NLRB v. Express Publishing Co.*, 312 U.S. 426, 435-36, 61 S.Ct. 693, 699-700, 85 L.Ed. 930 (1941).

The district court's two sentence injunction in this case does not satisfy the requirements of Rule 65. The brief injunction *does not use specific terms or describe in reasonable detail the acts sought to be restrained.* The terse order *does not state which acts-of Adcom constitute infringement* of the '318 patent. The order does not limit its prohibition to the manufacture, use, or sale of the specific infringing device, or to infringing devices no more than colorably different from the infringing device. *See KSM*, *776* F.2d at 1526.

This court has said that the rule upholding contempt judgments *only for devices previously adjudged to infringe*, or for colorable imitations of those infringing devices, is for the purpose of avoiding the *effect* of overly broad injunctions. *Id. This rule indeed permits a party subject to injunction to design around the claims of a patent with less risk of contempt proceedings. Id.*

In *KSM*, however, this court did not review the propriety of an injunction under Rule 65(d). This case calls upon this court to enforce Rule 65. While the doctrine of KSM protects an enjoined party from contempt judgments on non-infringing devices, *Rule 65 has the added purpose of deterring unwarranted contempt proceedings altogether. See, e.g., Granny Goose Foods, Inc. v. Brotherhood of Teamsters*, 415 U.S. 423, 444, 94 S.Ct. 1113,1126-27, 39 L.Ed.2d 435 (1974) (Rule 65(d) ensures that parties receive fair notice of precisely what conduct enjoined). By requiring specificity in injunctions, *this rule relieves parties from the burden of adjudicating unwarranted contempt proceedings. Cf*

> *Express Publishing*, 312 U.S. at 435-36, 61 S.Ct. at 699-700. Accordingly, this court vacates the injunction and remands this case to the district court with instructions to issue an injunction that meets the specificity requirements of Rule 65(d).

Additive Controls, 986 F.2d at 479-80.

MercExchange's proposed injunction fails to provide sufficient guidance for design around and contempt purposes, and does not come close to deterring unwarranted contempt proceedings, *as the* Federal Circuit has mandated. MercExchange has already shown that it will seek contempt for no reason at all, as its unsuccessful attack on eBay's founder, Mr. Omidyar, and as MercExchange's *pending motion* regarding Jabil Circuit indicates.[10] *See Dkt. 564*. (MercExchange also attempted to disbar one of eBay's experts, former PTO Commissioner Mossinghoff.) MercExchange's proposed injunction, if accepted, will not resolve this case, but will perpetuate it, particularly in view of its vagueness, overbreadth, and utter lack of specificity as to the acts sought to be restrained.[11] As a result, without such specificity and incorporation of various claim limitations, as

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[10] The pending motion regarding Jabil Circuit is not well-founded and, in fact, is directed to Jabil Circuit's *future* operations, which were clearly not at issue in this case. In any event, eBay opposes that motion for the reasons set forth in its opposition, filed herewith today.

[11] While in some cases it maybe appropriate to issue a broad injunction firm which the acts sought to be restrained can be deduced from a detailed record, such an injunction is not appropriate where there is a danger of unwarranted contempt actions. *See, e.g., Signtech USA, Ltd v. Eutek, Inc.*, 174 F.3d 1352, 1359 (Fed Cir. 1999) (holding that an injunction against fu"ue infringement of [the patent in suit] was sufficiently specific, since "any danger of unwarranted contempt actions was minimal, if not completely non-existent, because of the detailed record on which this injunction was issued). Here, the danger for unwarranted contempt actions remains very real, if not imminent, is view of MercExchange's effort to enjoin activities that are not covered by the patents and its history of pursuing contempt actions in these proceedings.

set forth above, the proposed injunction is improper and should not *be* issued.

D. The proposed injunction includes additional restrictions that are unduly onerous, confirming that the proposed injunction is overly broad.

In an *unprecedented* and overreaching fashion, MercExchange's proposed injunction also seeks to place additional-and unduly burdensome -restrictions on eBay and Half.com's future operations, requiring *proof* that operations that have *not* been adjudged to infringe are, in fact; *noninfringing*. (*See Proposed Order* at 34) MercExchange provides no explanation-let alone any authority for its request that defendants rebut *a de facto* presumption of infringement before conducting aspects of their business that were, by definition, *never adjudged to infringe*. Such a procedure is ridiculous, and defendants are not aware of any court that has endorsed such an approach. The law is clear and demonstrates the overbreadth of the proposed injunction, since a narrowly-tailored injunction has no need for such errands.[12]

The Federal Circuit has held such attempts to extend injunctions to conduct not presented to the jury and therefore not adjudged *to* infringe:

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[12] There are other defects in MercExchange's proposed injunction. The proposed injunction is, for example, set to expire on the date of the last patent to expire, thus seeking to enjoin activities covered by the '265 patent, after its expiration. The proposed injunction further seeks to enjoin colorable variations, or equivalents, even though the question of infringement under the doctrine of equivalents was precluded from being raised at trial, and thus, was not considered. *See* Tr. 3242:22-3243:7 (granting defendants' motion *excluding the doctrine of equivalents*). Accordingly, MercExchange is precluded, as a matter of law, from ever asserting infringement under the doctrine of equivalents, or from obtaining an injunction covering the doctrine of equivalents, against eBay and Half.com on the '265 and '176 patents.

> This court has said that the rule upholding contempt judgments *only for devices previously adjudged to infringe*, or for colorable imitations of those infringing devices, is for the purpose of avoiding the effect of overly broad injunctions. *This rule indeed permits a party subject to injunction to design around the claims of a patent with less risk of contempt proceedings.*

Additive Controls, 986 F.2d at 479-80 (citation omitted). *See also Fastening*, *776* F.2d at 1526 ("[a]n enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device"). Thus, where "a former infringer who has made a good-faith effort to modify a previously adjudged or admitted infringing device to remain in the marketplace....the modifying party generally deserves the opportunity to litigate the infringement question at a new trial." *Arbek Mfg., Inc.* v. *Moazzam*, 55 F.3d 1567, 1570 (Fed. Cir.1995) (citations omitted).

If MercExchange believes a modified product infringes, its appropriate recourse is to file a subsequent infringement action, not contempt. *Smith Corona Corp. v. Pelikan, Inc.*, *784 F.* S. 452, 478 (N.D. Tenn. 1992) ("whether Pelikan's new products actually avoid infringement" of Smith Corona's patents....is an issue for another lawsuit, should Smith Corona decide to "pursue one, or for a motion for contempt should Smith Corona desire to file one"). In either case, it is MercExchange's burden to prove any such modified product or service infringes. *See CVI/Beta Ventures, Inc.* v. *Tura LP*, 112 F.3d .1146, 1161 (Fed Cir. 1997) (patentee bears the burden on infringement); *Arbek*, 55 F.3d at 1569 ("to show contempt, the patent owner must prove by clear and convincing evidence that `the modified device falls within the ... adjudicated scope of the claims ...") (citations omitted). MercExchange's attempt to end-run its burden and extend any injunction beyond that which the jury found to infringe

turns the concept of injunctive relief on its head and unduly burden the defendants and the Court.

Nevertheless, the proposed junction would require eBay and Half.com to provide, for "any new or modified product or service involving the fixed-price sales of is or goods by or through the eBay or Half.com web sites," the following information:

- *Claim charts* for each of the foregoing claims of the MercExchange patents explaining in detail eBay's or Half.com's contentions *as to why the new product or service does not infringe the claim;*
- Documentation sufficient to support *all of eBay's or Half.com's contentions* for each new product or service, including, but not limited to, research and development *records*, system and network configurations, process or logic *flow diagrams*, internal *memoranda*, and any supporting *source code* for the proposed product or service.

(*See* Proposed Order at 3-4 (emphasis added).) Such information would likely include attorney work product and highly proprietary information beyond the scope of this case, and could conceivably require defendants to produce-and apparently the Court to review and story--hundreds of thousands of pages of documents on potentially a weekly basis to avoid claims of contempt. MercExchange's request for "any supporting source code for the proposed product or service" exemplifies the overbreadth and undue burden of the proposed injunction. (*See* Proposed Order at 4).

For example, the proposed injunction does nothing to identify what would constitute a "product" or "service" in the context of defendants' websites, nor to delineate whether "supporting source code" would include the entirety of eBay and Half.com's source code. Moreover, throughout this case, MercExchange has maintained that source code is "ephemeral" and subject to modifications on a daily basis.

MercExchange now proposes an order that could conceivably require the Court be provided with every iteration of "supporting source code" relating to "the fixed-price sales of items," despite MercExchange's repeated complaints about the volume of defendants' source code produced in this case - approximately 39 boxes of documents containing 125,000 pages. Dkt. 263 at 1, 5. Nevertheless, MercExchange would apparently have the Court receive, review, and store this volume of documents-as well as the numerous other categories listed above--on what MercExchange has contended could be a daily basis for the next twelve years.

Indeed, the language of the proposed order itself demonstrates this could serve no legitimate purpose. MercExchange requests documents be produced for "any new or modified product or service involving the fixed-price sales of items or goods," (Proposed Order at 3), a category of products that extends well beyond the adjudged scope of the patents. Indeed, in its own brief, MercExchange concedes that the claims cover a limited portion of eBay and Half.com's fixed-price sales-not all products or services "involving fixed price sales". Dkt. 562 at 9.

A sufficiently-specific and narrowly-tailored injunction, as required by Rule 65(d), would avoid the need for such additional procedure.[13] In addition, the proposed procedure would not minimize unwarranted contempt proceedings, it would multiply them-impermissibly "subvert[ing] the infringement inquiry on any new [operations]." *Applera Corp.*, 204 F. Supp. 2d at 784; *see also KSM Fastening*, 776 F.2d at 1532 (where differences between the original

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[13] Such unprecedented procedures are, of course, necessary to counter the proposed injunction's overbreadth and vagueness, and do nothing more than drive-up eBay's post trial "discovery" costs as the parties continue to be embroiled in mini-trials and satellite litigations over operations that were not at issue in this case. Fortunately, the Federal Circuit does not envision such an approach, and this Court should not do so either.

infringing device and the redesigned device are such that "substantial open issues" of infringement are raised by the new device, then contempt proceedings are inappropriate and infringement by the redesigned device should be addressed in a separate infringement action).

As a result, the proposed injunction, and its unprecedented procedure, is entirely improper. The defendants, therefore, respectfully request that MercExchange's request be denied.

III. AN INJUNCTION IS NOT AUTOMATIC, AND MERCEXCHANGE SHOULD NOT RECEIVE ONE HERE.

A. The Court most weigh the equities in accordance with the principle of equity

Section 283 of the Patent Act provides that "courts having jurisdiction of cases under this title *may* grant injunctions *in accordance* with *the principles of equity*." 35 U.S.C. § 283 (emphasis added). As this Court has recognized, "[t]he issuance of an injunction following a verdict *of* infringement *is not automatic*, however, district courts must instead follow the traditional equitable principles that guide the decision whether to enjoin certain conduct. *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 788 M.D. Va. 1998) (emphasis added), *aff'd*, 185 F.3d 1259 (Fed. Ctr. 1999) (hereinafter *"Odetics"*); *see also Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Co., IW F. S.* 2d *696, 700* D.N.J. 2000) ("As [Section 283] makes abundantly clear, *the right to an injunction is not automatic* but is left to the discretion of the district court *after considering the equities of the particular case.*") (emphasis added)(citations omitted).

The Court should not, however, merely rubber-stamp the jury's verdict with an injunction, as MercExchange suggests. The Court must instead consider and weigh the equities of the case, including: (1) whether MercExchange would be inseparably harmed if the injunction does not issue; (2) whether MercExchange has an adequate remedy at law; (3)

whether granting the injunction is in the public interest; and (4) whether the balance of hardships tips in the plaintiffs' favor. *See Odetics*, 14 F. Supp. 2d at 794-797; *Boehringer*, 106 F. Supp. 2d at *700*-01. As explained below, these factors weigh in defendants' favor such that an injunction should not issue.

B. The Equities of this Case Dictate that MercExchange's Motion for Permanent Injunction Be Denied.

1. MercExchange will not be irreparably harmed if an injunction does not issue:

a. This is a more than a "close" case, and irreparable harm should not be presumed.

While irreparable harm may be presumed, the presumption arises only if validity and continuing infringement is *clearly established. Odetics I, 14 F. Supp.* 2d at *794 (citing Smith Intl Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581(Fed. Cit. 1983)). That is not the case here.

Here, validity and infringement were more than a "close" case—eBay and Half.com have requested JMOL and a new trial on both issues and incorporate those arguments herein. Dkt. 550-60. The Court recognized, before and after trial, that eBay and Half.com presented substantial defenses.[14] For example, following the filing of MercExchange's motion for judgment as a matter of law on infringement, the Court noted that "it is clear to the Court that *substantial questions* exist as to whether the defendants infringe any of the asserted claims of the patent at issue." Tr. 3447:2-4 (emphasis added). Similarly, in ruling on the defendants' motion for summary

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14 As explained in detail in defendants' renewed JMOL motions, no reasonable jury could have found that eBay or Half.com infringe the '176 or '265 patents, and no reasonable jury could have found that the '176 or '265 patents are valid.

judgment of non-infringement, the Court stated that the defendants presented *"compelling evidence"* in support of their non-infringement positions. Dkt. 274 at 5 (emphasis added). Thus, it is beyond dispute that eBay and Half.com, at a minimum, mounted "a good faith and substantial challenge to the existence of infringement." *Paper Converting Mach. Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 20 (Fed. Cit. 1984).

Similarly, the defendants presented more than a "close case" of invalidity of both the '265 and '176 patents. eBay and Half.com presented the testimony of four renowned experts in the relevant art, each of whom presented testimony-much of which MercExchange ignored-that the '265 and '176 claims are invalid. eBay and Half.com also presented the testimony and work of a number of disinterested prior art inventors who practiced what MercExchange claims to have invented - in one instance *a decade* before Mr. Woolston. The defendants also showed that the PTO has rejected dozens of patent claims, with nearly identical elements and claim language as those at issue here, based on the Nahan patent, one of the key prior art references in this case. The validity of the '265 and '176 patents was seriously challenged and supported by this substantial evidence, making this more than a close case. *See, eg; Odetics, Inc.* v. *Storage Tech. Corp., 14* F. Sapp. 2d at 800, 803 (E.D. Va. 1998) 185 F.3d 1259 (Fed. Cir. 1999) ("There was strong evidence...of a good-faith belief is invalidity ... STK introduced a videotape showing that a prototype similar to the accused device existed prior to the conception date of the—'151. Such evidence could certainly form the basis for a good-faith and meritorious argument for invalidity") (hereinafter *"Odetics II"*).

Finally, on the issue of willfulness, the Court observed that whether *any reasonable jury could find willfulness* was a "close call." At the end of MercExchange's case in chief, the defendants filed a motion for judgment as a matter of law on,

among other things, the issue of willfulness. In announcing its decision, the Court stated that JMOL on willfulness was "*a bit of a close call, and the court will reserve the right to revisit this issue as the jury returns its verdict.*" Tr. 3250:10-12 (emphasis added). In other words, MercExchange barely presented *any* evidence upon which a jury could conclude that the alleged infringement was willful - let one the clear and convincing evidence required for a finding of willfulness.[15]

Given the closeness of the issues, and the points raised in defendants' renewed motions for JMOL, validity and infringement have not been clearly established. *Odetics*, *14 F.* Supp. 2d at 794. As a result, the Court should not presume irreparable harm. *Id.*

b. Any presumption of harm can be, and has been, rebutted.

Even if irreparable harm were presumed, MercExchange's motion glosses over the fact that *a presumption of irreparable harm is rebuttable. See Boehringer*, 106 F. Supp. 2d at 701. The Federal Circuit has listed several factors that a defendant may prove in order to rebut *this* presumption, including (1) that defendant has or will cease its allegedly infringing activity; (2) that plaintiff has granted numerous licenses such that it can be compensated for a defendant's continued alleged infringement; or (3) that plaintiff delayed bringing suit thereby negating any presumption of irreparable injury. *See id. at* 701-02 (citing *Polymer Tech., Inc. v. Bridwell*, 103 F.3d 970, 974 (Fed. Cir. 1996)). factors

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[15] In fact, the jury's entire verdict regarding willfulness is not supported by the evidence. The jury found that eBay did not induce infringement of the '176 patent Dkt. 552, ¶ 6. The same jury, supposedly applying the evidence and instructions, nevertheless found, by clear and convincing evidence, that eBay willfully infringed the '176 patent Dkt. 552, ¶10. Such an inconsistent finding calls into question the jury's understanding of the willfulness issue and the overall support for the verdict.

confirm that there is no irreparable harm here.[16]

First, eBay and Half.com maintain that they do not practice any claims of the '265 and *'176* patents, or encourage any one else to do so, as fully explained in their pending motions for JMOL. Nevertheless, should the Court deny those motions, and conclude that some form of injunctive relief may be appropriate, defendants should be permitted to conduct operations that avoid various claim limitations, provided any injunction provides the proper specificity. *See* Sections II.B.2-5, *supra*. Under such circumstances, there would be no irreparable harm, and an injunction would be inappropriate because there will be no threat of future infringement *See Oxy Metal Indus Corp. v. Roper Corp.*, 579 F. Supp. 664, 683 (D. Md. 1984).

Second, the evidence from trial was clear that MercExchange is willing to license or sell its patents, such that it can be adequately compensated for any allegedly continuing use. Such licenses weigh against, and in fact rebut, any irreparable harm here. *Boehringer*,*106 F.* Supp. 2d at 701. In addition, MercExchange claims that it was willing to license its patents to eBay before this case began, confirming the lack of harm here.[17] *See High Tech Med*

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[16] This list is not exhaustive, and defendants can offer other arguments and evidence to rebut the presumption of irreparable harm. *Id* at: 701 (noting that these exceptions or "similar exceptions" may rebut the presumption of irreparable harm).

[17] He who seeks equity, must do equity, and it is questionable whether MercExchange has proceeded equitably in this case. For example, MercExchange committed inequitable conduct on the '051 patent, and then knowingly sued eBay for infringement of that patent. The Court indicated that, had the '051 not been invalidated, the Court would have conducted further proceedings on the inequitable conduct. *See* Dkt 349 at 1 n.1. The Court also concluded that MercExchange's last-minute change in damages theory was made *in bad faith*. *Dkt 349* at 6-7 (emphasis added) ("Based on the timing of this change of *position, the court believes it was made in bad faith as a way to capture some of the damages from*

Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551, 1557 (Fed. Cir. 1995) ("[T]he evidence shows that [plaintiff] offered a license to [defendant], so it is clear that [plaintiff] is willing to forgo its patent rights for compensation.')

Third, MercExchange has likewise proclaimed in the national media that `it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights." McFarland Decl., Exh. 1 (Article, eBay-Contested MercExchange Patents Are on the Block, May 30, 2003, at www.auctionbytes.com) (quoting Mr. Woolston). MercExchange's counsel likewise has announced in the media that monetary compensation was the goal, not injunctive relief:

> "We are seeking reasonable royalties as permitted under the patent laws," Robertson said. "It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner."

McFarland Decl., Ex.2 (Article, Patent Suit Could Shag eBay, September 5, 2002, at www.CNETnews.com).

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the alleged infringement of the '051 patent....Therefore, the plaintiff is estopped from-asserting this new position at trial on the '265 patent'). Moreover, the Court found that MercExchange had filed a State Bar complaint and moved to disqualify defendants' expert, former Commissioner Mossinghoff *"purely for strategic purposes."* Dkt 240 at 11 (emphasis added).

In addition, MercExchange has repeatedly touted to the national media that eBay contacted MercExchange first seeking to purchase MercExchange's patent portfolio. McFarland Decl , Ex: 2 (Article, Patent Suit Could Sting any, Sept 5, 2002 *at* CNETnews.com, stating that "[eBay] first contacted Woolston in 2000 with an interest in buying the patents"). That contention was shown to be *demonstrably false*. In fact, at trial, Mr. Woolston admitted that his patent attorney, Mr. Phillips, *initiated the* contact with eBay. Tr. 583:3-5842. To make matters worse, the contact appears to have been made as a pretext to this litigation, given that MercExchange had already decided to sue eBay at that time. Tr. 595:&22. Such conduct is sufficiently *inequitable* to deny injunctive relief.

Fourth, the evidence at trial was clear that the inventor, Mr. Woolston, utterly failed at all attempts to commercialize and build his alleged inventions, and the *only* benefit his company receives from the patents-in-suit is licensing revenue. Moreover, MercExchange does not practice the patents, so no alleged use by eBay or Half.com would result in MercExchange losing customers or sales. *See id.* ("[T]he lack of commercial activity by the patentee is a significant factor in the calculus.")

Conversely, the only alleged harm that MercExchange was able to recite was its alleged inability to obtain licenses due to the defendants' alleged use of the patents-in-suit. (Merc. Br. at 7.) MercExchange did not, however, produce any evidence that defendants' activities have harmed MercExchange's ability to licenses it patents or in any way encouraged other potential licensees to infringe.

These facts, taken together, show that MercExchange will not suffer irreparable harm if the injunction does not issue. *See, e.g., Ramp Research & Dev., Inc.* V. *Structural Panels, Inc.*, 977 F. Supp. 1169, 117&79 (S.D. Fla. 1997) (refusing injunction because a compulsory license would be more equitable) (citing *Foster v. Am. Mach. & Foundry Co., 492* F.2d 1317, *1324 (2d* Cir. 1974), *vacated on* other grounds, 230 F.3d 1381 (Fed. Cir. 2000) (unpublished). In addition, any harm that may be presumed is likewise rebutted by such facts, all of which weigh against entry of an injunction here.

2. Money damages are adequate in this case to compensate MercExchange for any allegedly continuing use.

MercExchange would have the Court believe that a patentee is always entitled to an injunction because money damages are never adequate. (Merc. Br. at 6.) MercExchange is wrong. *See Boehringer, 106* F.3d at 704 ("This is not to say that money damages are never adequate.") (citing *Polymer Tech., 103* F.3d at 976 and *W.L. Gore & Assoc., Inc.*

v. Garlock Inc., *842* F.2d 1275, 1275 (Fed. Cir.1988)).

MercExchange has itself made clear that it is willing to forego injunctive relief if there is a payday involved, McFarland Decl., Ex. 2 (Article, Patent Suit Could Sting eBay, Sept. 5, 2002, at www.CNETnews.com), and is willing to sell off its patents to the highest bidder. McFarland Decl., Ex. 1 (Article, eBay-Contested MercExchange Patents Are on the Block, May 30, 2003, at www.auctionbytes.com) (quoting Mr. Woolston). Having failed to implement a commercial system, MercExchange's entire business has instead been based on patent royalties. MercExchange has wholly failed in its attempts to build and implement a commercial system, even with the benefit of Mr. Woolston's self-proclaimed extraordinary skill and the patents-in-suit as a roadmap. Thus, this is not the typical patent case where an injunction prevents a direct competitor from usurping the patentee's sales and/or customers, and MercExchange should not be permitted to disrupt defendants' business operations, when money damages would not only be adequate, they are the goal. Where money damages are adequate to compensate for the infringement, as they are here, an injunction may not be appropriate. *Boehringer*, 106 F.3d at 704

3. The public interest weighs against enjoining business methods.

MercExchange erroneously proclaims that "[t]here is no countervailing public interest that would be served through denial of an injunction," (Merc. Br. at 8). MercExchange is again wrong.

Here, the public interest is not furthered by enjoining activities based on improvidently granted patents, and there is a strong public interest against an injunction under such circumstances. The validity of the '265 and '176 was, at best, a close question, as indicated above. The '265 and '176 patents issued without the benefit of the Patent Office's "second look" policy, as MercExchange's own expert, Q.

Todd Dickinson explained at trial. Tr. 1209:25-1211:15. Mr. Dickinson also confirmed that the "second look" policy resulted from public discussion, resulting from a growing concern over the issuance of business method-related patents, such as the '265 and '176 patents. Tr. 1203:8-1204:22. After the second-level review policy was implemented - long after the patents-in-suit issued - the issuance rate of business method patents dropped *to below 40 %*. Tr. 1207:9-24.

Mr. Dickinson also testified that the Patent Office, in the hopes of improving the quality of issued business method patents, implemented a new policy that requires all business method patents to receive *two* independent reviews before issuance. Tr. 1205:&11. The public outcry against such patents has been so widespread that legislation has been introduced in Congress to eliminate the presumption of validity for such patents and create a presumption of *invalidity*. *See, e.g.*, Business Method Improvement Act of 2001, H.R. 1332, 107th Cong., April 3, 2001.

The public interest is not served by enjoining activities that are covered by such business method-related patents, particularly in the sweeping manner proposed by MercExchange.[18] As a result, this factors weighs against issuance of injunctive relief.

4. Balancing the hardships of the parties weighs decidedly in defendants' favor.

Finally, the Court should consider and balance the hardships the parties would suffer if the injunction were to issue or not *Odetics I*, 14 F. Supp. 2d at 794. This factor, too, weighs against issuing an injunction against defendants, particularly given the (over)breadth of activities sought to be

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[18] MercExchange cannot possibly claim that its patents are not business method patents. After all, MercExchange has announced to the national media throughout this case, and since trial, that it's patents cover eBay's Buy It Now feature of selling items online at a fixed price.

enjoined here.

If an injunction were to issue, the likelihood of potential- and unwarranted-contempt actions would be real and imminent. MercExchange has shown as interest is pursuing such actions, and without narrowly-tailored and specific guidelines, will likely pursue such actions, even if eBay and Half.com were to modify their operations, notwithstanding authority to the contrary. *See, e.g., KSM Fastening*, 776 F.2d at 1526 (an enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device). In fact, MercExchange's theories of infringement continued to change up until trial, and in some instances at trial. Tr. 2862:23-2863:10 (Testimony of Dr. Wellman on MercExchange's changing infringement theories). Courts have refused to issue an injunction under such circumstances, particularly where the infringer would suffer irreparable hardship without any concomitant benefits to the patentee. *Ramp Research*, 977 F. Supp. at 1178-79 (refusing injunction because a compulsory license would be more equitable) (citing *Foster*, 492 F.2d at 1324, *vacated on other grounds*, 230 F.3d 1381 (Fed. Cir. 2000) (unpublished).

Here, the only "hardship" MercExchange has been able to recite if the injunction does not issue is the unsubstantiated loss of potential licensees. (Mere. Br. at 7.) But MercExchange introduced no evidence that this would be--or has ever been-the case. In reality, MercExchange would be harmed by the injunction, for that would foreclose the only possible benefit MercExchange has ever been able to extract from its patents: royalty revenue. The defendants, on the other hand, would suffer irreparable hardship were the Court to impose an overbroad, ambiguous and unclear injunction that invited meritless contempt proceedings.

IV. ANY INJUNCTION, IF AT ALL, MUST BE NARROWLY-TAILORED AND PROPERLY DISTINGUISH BETWEEN LAWFUL AND UNLAWFUL ACTIVITIES.

eBay and Half.com maintain that they do not practice any claims of the '265 and '176 patents, or encourage any one else to do so, as fully explained in their pending motions for JMOL. Nevertheless, should the Court deny those motions, and conclude that some form of injunctive relief may be appropriate, any injunction must be narrowly-tailored and must be limited to the adjudged violations.[19] Such an injunction would necessarily be limited to the literal wording of the claims, as modified by the specific rulings and rationale set forth in the Court's *Markman* order and opinion.[20] *See, e.g., Riles*, 298 F.3d at 1311 (injunction must be limited to adjudged violations).

For example, any injunction should clearly confirm the following:

- Any order must draw a distinction between (1) a trusted intermediary/network, which presents a good to market, adds value to the description of the item, transfers ownership of the item, and extracts a commission based on the sales price; and (2) a person-to-person system, which the '265 and '176 patents do not disclose or describe, and in fact, teach away from.

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[19] eBay and Half.com respectfully reserve their right to move for a stay of any injunction that may issue. *Standard Havens Prods., Inc v. Gencor Indus., Inc.*, 897 F.2d 511, 512 (Fed. Cir. 1990) (if patentee does not make a competing product, a stay would not threaten patentee's business).

[20] The Court granted JMOL for defendants on doctrine of equivalents, and thus, the doctrine cannot be litigated further, or constitute part of any injunction. Tr. 3242:22-3243:7 (granting defendants' motion *excluding the doctrine of equivalents*).

- Any injunction must confirm that, for claims 8-11, 13-18, and 20.22 of the `265 patent, the transaction processor transfers legal ownership of good upon clearance of payment. Conversely, any injunction must confirm that the mere use of a payment processor does not meet this limitation, and there would be no violation if eBay and Half. to transfer ownership themselves, pursuant to the UCC (i.e., upon delivery).

- Any injunction must confirm that, for claims 26-29 of the `265 patent, the "transaction processor" must "notify the owner" by "modifying a data record." Conversely, any injunction must confirm that the mere use of a payment processor that does not track ownership and notify owners does not meet this limitation.

- Any injunction must confirm that, for claims 8, 10, 11, 13-15, 17, 18, 20-22, and 26 of the `265 patent, only the posting terminal apparatus is verified as an authorized user, not the person using the posting terminal apparatus. Conversely, any injunction must confirm that a system that does not authorize terminals does not fall within the scope of these claims. For example, if eBay and Half.com accepted "Buy It Now" listings from users, *without detecting, using or verifying a user's cookie during the listing process*, eBay and Half.com would eliminate MercExchange's erroneous infringement arguments, and indisputably would not infringe. Similarly, if eBay's API system would accept Buy It Now listings, without detecting or verifying the API application ID, developer ID or certificate during the listing process, there would indisputably be no infringement or violation.

- Any injunction must confirm that claims 1, 4, 7 and 23 of the '265 patent require creation of a digital

image, but not retrieval of image from an image repository. Thus, any order should confirm that, if eBay was not encouraging users to create (as opposed to retrieve from an image repository) images, there would be no infringement or violation.

- Any injunction must confirm the specific requirements of claims 1, 4, 7 and 23 of the '265 patent, including generation of a data record for a good sale, storage of that data record at a local storage device on the user's computer, transfer of that data record to the market, receipt of a tracking number from the market, and storage of that tracking number in the same (i.e., said data record) that was previously stored the same local storage device (i.e., said storage device) on the user's computer. Conversely, any order should confirm that, if eBay was not encouraging users to create their own data records and store eBay item numbers in that same data record, there would be no infringement or violation.

- Any injunction must confirm that the claims of the '176 patent at issue here are limited to searches for single, unique items in electronic markets that allow participants to buy, sell, or browse; and that starches for "words," are not covered.

Such specificity would provide guidance for design-around and contempt purposes. *Additive Controls*, 986 F.2d at 479-80.

V. CONCLUSION.

MercExchange's proposed injunction is vague and overly broad, and impermissibly, seeks to restrain lawful—and *noninfringing*—activity. While an injunction must be narrowly tailored to address specific infringing activity, the one proposed here is divorced from the patents' claim

limitations and the Court's *Markman* decision, and improperly *paraphrases* claim limitations that sweep in *noninfringing* embodiments. MercExchange's proposed injunction fails to provide sufficient guidance for design-around and contempt purposes, and also includes unduly onerous restrictions, which would require eBay and Half.com to *prove*, in *advance*, *that future instantiations of* their operations—even if they are *unrelated to the issues adjudged in this cast*. A narrowly-tailored injunction directed to specific acts of infringement does not require such extraneous and onerous additional restrictions. Contrary to MercExchange's argument, an injunction is not automatic, particularly under the circumstances here. On balance, the equities do not favor issuance of an injunction here. If one were to issue, the defendants respectfully request that the Court narrowly tailor any injunction to confirm that noninfringing operations are clearly outside of the order.

Dated: June 23, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff,

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

DECLARATION OF ROBERT W. MCFARLAND IN SUPPORT OF EBAY INC. AND HALF.COM, INC.'S OPPOSITION TO MERCEXCHANGE'S MOTION FOR PERMANENT INJUNCTION

* * * *

I, Robert W. McFarland, declare as follows:

1. I am an attorney admitted to practice before this Court. I am an attorney with McGuireWoods LLP, counsel of record for eBay Inc. and Half corn, Inc. in this action. I have personal knowledge of the facts herein and, if called as a witness, could and would testify competently hereto.

2. Attached hereto as Exhibit 1 is a true and correct copy of an article from www.auctionbytes.com. eBay-Contested MercExchange Patents Are on the Block, dated May 30, 2003.

3. Attached hereto as Exhibit 2 is a true and correct copy of an article from www.CNETnews.com, Patent Suit Could Sting eBay, dated September 5, 2002.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct

and that this Declaration was executed on Jane 23, 2003, at Norfolk, Virginia.

/s/ Robert W. McFarland
ROBERT W. MCFARLAND

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eBay-Contested MercExchange Patents Are on the Block

By Ira Steiner
May 30, 2003

Emerging victorious after years of battling eBay in a patent infringement lawsuit, Thomas Woolston President of MercExchange, said he's ready to move on. A jury reached a verdict on Tuesday, declaring eBay had willfully infringed MercExchange's consignment fixed-price and software search agent patents and handed MercExchange $35 million in damages.

When asked if he would go after small niche sites in the auction industry, Woolston said, "it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights." MercExchange is talking to companies "the size and scope of eBay," who are very interested in purchasing his patent portfolio. "We've had good discussions with these companies," Woolston said. .

Would Woolston sell his patents to eBay now? Woolston said eBay has not spoken to him outside a courtroom since June 2000 when he first approached them about purchasing his patents. "I always thought the eBay community was the natural home for the patents," he said.

However, if eBay wants to purchase exclusive rights to the patents, there maybe antitrust concerns.

"Acquisitions of patents can create the same antitrust issues if they give market power to the acquiring company," according to Kevin Buford, partner and leader in the mid-Atlantic Intellectual Practice area at Holland & Knight LLP.

Yet it may be in eBay's interest to make such a purchase: MercExchange intends to file a motion to have the court enter an injunction against eBay and Half.com, according to

Jennifer Albert, a partner and the co-head of the Intellectual Property Practice at Hunton & Williams LLP, which represented MercExchange. This would affect the fixed-price listings on the eBay and Half sites.

In order for a judge to deny an injunction, there must be a "sound reason," such as an overriding public interest, according to Holland & Knight's Buford. "I am unaware of any facts that would suggest eBay has a sufficient "sound reason" to rely on in this case."

eBay could try to reach a provisional settlement with MercExchange while the appeals process goes on, but Buford said MercExchange would be unlikely to agree to this since they have procedural advantage.

eBay said the court has established a two or three week time frame for the filing of post trial motions. "Ours will consist of motions to overturn the verdict, vacate the decision and dispute the damages," said eBay spokesperson Kevin Pursglove.

Hunton & Williams said it expects the judge to make his ruling on damages about 30 days- after post-trial briefs, which are due in about two weeks.

In the meantime, the patents maybe sold to the highest bidder.

[logo]

Patent suit could sting eBay

By Troy Wolverton
Staff Writer, CNET News.com
September 5, 2002, 4:00 AM PT

eBay, one of the biggest success stories on the Web, is being threatened with a patent infringement lawsuit that could force it to modify its winning auction format.

A loss could compel the Internet auction company to pay millions of dollars in royalties and damages and even to make significant changes to its business model.

MercExchange founder Thomas Woolston, an inventor and patent attorney who has been granted four online auction-related patents since 1998, and has some 10 others pending, said he sued eBay in 2001 after negotiations broke down over the auction site's offer to purchase his patents.

The company first contacted Woolston in 2000 with an interest in buying the patents. E-mail to that effect is expelled to figure prominently in the case because it indicates that eBay knew about Woolston's patents but continued to infringe them, he said.

"We expect to be vindicated at trial," Woolston said. "They are rank infringers."

eBay representatives did not return calls seeking comment about the lawsuit. However, in a recent regulatory filing of quarterly earnings, eBay said it believes it has "meritorious defenses" to the claims, but noted that the lawsuit could prove costly even if eBay wins.

"If (MercExchange) were to prevail on any of its claims, we might be forced to pay significant damages and licensing fees, modify our business practices or even be enjoined from practicing a significant part of our U.S. business. Any such

results could materially harm our business" eBay said in its filing. "We are unable to determine what, if any, potential losses we may incur if this lawsuit were to have an unfavorable outcome."

MercExchange has suggested a specific figure to settle the case, but the court has sealed the report and the amount sought is unavailable, said Scott Robertson, an attorney with Hunton &Williams, who represents Woolston and MercExchange.

"We are seeking reasonable royalties as permitted under the patent laws," Robertson said. "Our not our goal to put eBay out of business. Our goal to provide just compensation for the patent owner."

The trial is scheduled for Nov. 12 in the U.S. District Court for the Eastern District of Virginia.

At the heart of the case is patent paperwork Woolston filed less than five months before eBay founder Pierre Omidyar spent labor Day weekend of 1995 creating the first iteration of his auction site. Today, eBay is one of the most successful online businesses, with nearly $750 million in revenue fast year and continued profitability.

But eBay, like many other Internet businesses, does face the prospect of crippling patent suits, said James Pooley, an intellectual property attorney in Palo Alto, Calif. with Milbank, Tweed, Hadley & McCloy.

[sidebar omitted]

eBay's founding came not only at the beginning of the dot-com boom, but also during a time of great flux in the world of intellectual property. Courts hadn't yet determined the legitimacy of patents that covered business methods. Even if they had, patent applications at the time were largely kept secret until the patent office granted a patent, a process that can take several years, Pooley said. Even if a company had focused on patenting its technology or business methods before it got started, it might have to face a patent claim

from months or years earlier, he said.

"If you are into fast-moving and high-growth business, it's not for the faint of heart when it comes to intellectual property issues. You can never know all of the intellectual property you may need to operate in a given space," Pooley said. "You have to take disputes very, very seriously. If you lose, depending on how hard it is to design around, you could be shut down."

Patent registration-and subsequent lawsuitshave ballooned since 1998 when the courts ruled that business processes could be patented. During the dot-com booms numerous companies sought patent protection for their e-commerce services and poured millions into proprietary software.

Some of the biggest names in e-commerce have found themselves in court, including Amazon.com, Priceline.com, Bames&Noble.com and Expedia. Most of the lawsuits ended in settlements.

Critics say many patented business methods are obvious and that enforcement would hinder the growth of the Internet of e-commence.

Amazon Chief Executive Officer Jeff Bezos-himself the target of such criticism for patenting the company's "one click" technology, which speeds up the purchasing stage of an online transaction-called for patent reform in March 2000. The U.S. Patent and Trademark Office responded by saying it would give greater scrutiny to e-commerce and business-method patents.

From baseball to online sales

Woolston says he first started thinking about virtual markets and online auctions in the late 1980s and early 1990s, when he was working on computer networking projects. But it took the 1994 baseball strike to pull it together. A strike, he figured, would have a big effect on the market for baseball cards-and he says he envisioned a network of buyers and-sellers on the Internet and tried to figure out a way of building a trustworthy

and scalable system.

He filed his idea with the patent office in April 1995 and founded MercExchange to try to turn the idea into a business. But he couldn't raise the funding and eventually turned to the business of licensing his patents to other companies. Today, two companies license his work

"It was terribly frustrating," he said. "I followed the rules. I was convinced that was the right way to go. Now I'm convinced we're going to have our day in court and win."

Let the lawsuits begin

Woolston took steps to protect his patents almost immediately after he got his first one in 1998--No. 5,845,265, covering a method of creating a marketplace for used or collectible goods over the internal. That same month, he filed an administrative action with the U.S. Patent and Trademark Office against Priceline, attempting to have Priceline's patent on its "name your own price" business model thrown out on the grounds that it covered the same process he patented. That dispute is still pending before the patent office, which will decide which patent takes precedence.

Frustrated by the slow progress of the patent office, Woolston and MercExchange turned next to the courts, suing search site GoTo.com in 2000 for infringing on his patent No. 6,085,176, which covers auction search engines. GoTo paid MercExchange an undisclosed sum to settle the case out of court.

Woolston says he sued eBay last October after it became clear that the company wasn't going to license his patents. So far, the auction site has lost a few legal skirmishes in the case.

Last month, U.S. District Court Judge Jerome Friedman denied two motions to dismiss the case and denied a request to move the case to California courts. The judge has postponed ruling on two similar motions to dismiss, eBay said in its regulatory filing.

The judge has not translated MercExchange's patent claims into plain English, an important part of a patent dispute. Until he completes this step, known as the Markman ruling, it's hard to tell how big the threat is to eBay, said Carl Oppedahl, an intellectual property lawyer with Dillon, Colo.-based Oppedahl & Larson.

But should the case go to trial, eBay could suffer a serious setback, Oppedahl said.

"Clearly they have some exposure " he said. "No one can predict with certainty what a jury will do."

Woolston said there have been no attempts to settle the case.

"We can't agree on anything," he said. "They just want to litigate everything."

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MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff,

v.

eBAY INC., a Delaware Corporation, and
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Defendants.

EBAY AND HALF.COM'S MEMORANDUM IN OPPOSITION TO MERCEXCHANGE'S MOTION FOR ENHANCED DAMAGES AND ATTORNEYS' FEES

* * * *

IV. EBAY AND HALF.COM INDISPUTABLY BUILT THEIR SUCCESS ON THEIR OWN, WITHOUT ANY ASSISTANCE FROM MERCEXCHANGE OR ITS PATENTS.

A. Neither eBay Nor Half.Com "Copied" MercExchange's Patents.

Although MercExchange illogically contends that the defendants deliberately copied the patents-in-suit, the uncontradicted evidence establishes that eBay and Half.com are responsible for their own success.

First, no evidence indicates that the MercExchange patents disclose anything that can be copied. Mr. Woolston did not invent buying a good at a fixed-price, an idea which has been in existence since the advent of money. Mr. Woolston also did not invent the idea of "payment processors" for Internet transactions. In fact, Dr. Crocker, one of the inventors of the

Internet and a founder of CyberCash, explained that payment processing systems were already well-known at the time of Mr. Woolston's "invention," although the jurors may have been confused as to what, exactly, Mr. Woolston's "date of invention" was. Dkt. 534, at 17; 558 at 23. Dr. Crocker testified about several prior art payment processors, indicating that none of the problems in the field were solved, or even identified, by Mr. Woolston's applications. Tr. 2300-2317. Dr. Crocker also testified that Mr. Woolston's patent application discussed an unworkable high-level business concept, which added nothing substantive to the field. Tr. 2301:2-4. In short, the MercExchange patent applications disclose nothing to copy.

Second, the uncontradicted evidence showed that eBay and Half com developed their businesses independently, without any help from Mr. Woolston or his patents. Half.com launched its web-site long before the June 2000 meeting between eBay and MercExchange (Dkt. 478, at 247:9-13, 353:15-22; Dkt. 484, at 46:12-14), and eBay initiated negotiations to acquire Half.com in late 1999 - six months before the MercExchange meeting. See Dkt. 486, at 65:13-17; Pl. Ex. 195. Similarly, eBay acquired a majority interest in Billpoint in May 1999, a full year before any meeting between eBay and MercExchange. Dkt. 486, at 140:6-14. Thus, neither MercExchange nor its patents gave eBay the idea of "fixed price sales" or "payment processors" - ideas that pre-dated Mr. Woolston entirely.

Third, the only party that attempted to use MercExchange's patents as a blueprint - Mr. Woolston's companies - failed. D. 1087:1-15; Dkt. 491, at 161:9-162:13; Dkt. 524, at 39:24-40:17; Dkt. 512, at 41:9-49:21. In contrast, Billpoint and PayPal were independent, third-party companies that conceived, designed, developed, and successfully launched their own payment processing systems. No evidence whatsoever suggested that any Billpoint or PayPal employee, engineer, or designer ever heard of Mr. Woolston or his

patents, much less copied them. Furthermore, although MercExchange took overinclusive discovery which, MercExchange boasted, "laid bare" the defendants, Dkt. 259 at 19, MercExchange was unable to find a single eBay or Half.com engineer who ever saw the MercExchange patents, much less used them for anything.

B. MercExchange's Own Expert, Dr. Palmer, Acknowledged That eBay And Half.Com Became Successful On Their Own.

Tellingly, at trial none of MercExchange's experts were willing to embrace MercExchange's offensive "copying" allegations. MercExchange's own expert, Dr. Palmer, performed a study that MercExchange submitted to the Court, demonstrating that eBay became a runaway success long before it supposedly infringed the '265 patent.* Tr. 1353:41356:8.

> Q. And in studying eBay for this case, including the materials and information I've just read, you reached the conclusion that eBay has enjoyed significant commercial success, including industry recognition and awards, as of June 2000, correct?
>
> A. Yes.
>
> Q. And all of that success that eBay achieved was achieved prior to any claim that eBay infringed any patent in this case, right?
>
> A. I believe that that timing is correct, yes.

Tr. 1355:24-1356:8. Under these undisputed circumstances, enhanced damages and fees are inappropriate.

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* For instance, MercExchange's expert, Mr. Troxel, admitted that eBay was a huge success before any activity accused of infringement. Tr. 2073:9-2074:7; 2211:9-2211:13. Similarly, eBay's success had nothing to do with MercExchange's failure to develop or commercialize its patented system. Tr. 537:18-538:12.

V. MERCEXCHANGE IS NOT ENTITLED TO ENHANCED DAMAGES GIVEN ITS OWN CONDUCT IN THIS LITIGATION.

A. MercExchange Committed Inequitable Conduct in Obtaining the `051 Patent, and then Improperly Asserted the Invalid and Unenforceable Patent Against the Defendants.

MercExchange completely ignores the invalid `051 patent, which was the focus of this case for most of the litigation, and its own inequitable conduct in pursuing the `051 patent, a factor that the Court should consider in evaluating requests for attorneys' fees. See Epcon Gas Sys., Inc. v. Bauer Compressors, Inc., 279 F.3d 1022, 1034-35 (Fed. Cir. 2002). In fact, as set forth in eBay's motion for summary judgment, Dkt. 218-19, 236-37, the evidence of MercExchange's inequitable conduct was clear, convincing, and undisputed. Ironically, MercExchange argues that the Court should award MercExchange attorneys' fees and enhanced damages for its own inequitable conduct, frivolously arguing that eBay's inequitable conduct defense was "ultimately denied by the Court." Motion, at 9. In fact, the Court held:

> The plaintiff makes reference to this February 14, 2003 Order, speculating that the defendants may decide to appeal the Court's denial of their Motions for Summary Judgment of Non-Infringement and Inequitable Conduct. However, the plaintiff misstates the court's Opinion. The Court denied these motions simply because the '051 patent had been invalidated based on a previous ruling by the court. Had the '051 not been invalidated, the court would have conducted further proceedings regarding the defendants' Motions, particularly with respect to the inequitable conduct allegation.

Dkt. 349 at 1 n.1 (emphasis added). MercExchange is not entitled to a reward of any kind for its conduct in obtaining,

and litigating, the central focus of this case, the invalid and fraudulently obtained `051 patent.

B. MercExchange Filed an Inappropriate Motion to Reconsider, and Then a Frivolous Motion to Reconsider the Motion to Reconsider.

Although the Court held that no reasonable jury could have concluded that the `051 patent was valid, MercExchange insists that it should be paid for litigating it. MercExchange forgets that following entry of the order invalidating the `051 patent, MercExchange belatedly moved for reconsideration (Dkt. 214, 215), mischaracterizing the Court's analysis, and incorrectly presuming that the Court did not read, much less understand, the arguments and papers in the underlying cross-motions eBay briefed the issue, Dkt. 216, and the Court reaffirmed its ruling. Dkt. 250.

MercExchange again demanded reconsideration of its motion to reconsider. Dkt. 266. Although the parties filed seven legal briefs on the section 112 issue, MercExchange's motionto-reconsider the motion-to-reconsider argued that the Court somehow "denied MercExchange the opportunity to present testimony on the issue that the Court apparently determined was dispositive." Dkt. 258 at 8. eBay briefed the issue yet again, and, yet again, the Court correctly reaffirmed its summary judgment order. Dkt. 274. MercExchange lost the `051 patent three times, and cannot in good faith demand that defendants must pay MercExchange's expenses, costs and fees litigating it-if anything, defendants should receive their costs and fees for litigating the `051.

C. MercExchange Lost Arguments the Court Found "Completely Inappropriate," "In Bad Faith," and "Purely for Strategic Purposes."

1. MercExchange unleashed a "completely inappropriate" "diatribe" against the Court's Markman order.

MercExchange repeatedly litigated, and lost, motions that it never should have filed. For example, MercExchange filed a belated motion to reconsider the Court's extensive Markman order, which left no doubt whatsoever that MercExchange could not claim person-to-person systems, because the `265 "electronic market" and `176 "electronic auction" excluded them. Both parties, having argued the issue for two days at Markman and in over 100 pages of Markman briefs, had agreed what person-to-person systems were. Nonetheless, several months after the Markman order, MercExchange asked the Court for reconsideration, contending that the Court's Markman decision failed to define "trusted network," "trusted system," and "person-toperson system," and thus, violated the "fundamental due process" rights of both parties. Dkt. 271 at 15-20 (emphasis added). The Court rejected MercExchange's request to reconsider Markman, agreed with eBay, and criticized MercExchange for "launch[ing] into a diatribe regarding the court's Markman Opinion." Dkt. 274 at 7. According to the Court, MercExchange's belated argument was "completely inappropriate" and "completely disingenuous." Dkt. 274 at 7-8.

2. MercExchange and its experts attempted a last-minute change of position that the Court found to be "in bad faith."

On February 28, 2003, long after *Markman*, MercExchange again sought to reopen, reconsider, and relitigate the `265 patent Markman proceedings, and disavow what MercExchange itself repeatedly argued to the Court. For many months, the parties and the experts agreed and

proceeded with the claim construction that both parties adopted pre-Markman-the `265 patent "market for goods...for sale" covers only sales, i.e. fixed price. On the eve of trial, after the Court reaffirmed for the third time that the `051 patent is invalid, MercExchange sought to disavow its previous statements, reopen and relitigate Markman, and propose an entirely new infringement and damages theory-***which increased MercExchange's alleged "damages" by over 400%, or an additional $130 million***. At substantial time and expense, on the eve of trial, eBay and Half.com filed emergency briefs on the issue. Dkt. 281-84, 290.

The Court agreed with eBay and Half.com, correctly holding that MercExchange could not disavow its own statements to the Court and relitigate Markman: "Based on the timing of this change of position, ***the court believes it was made in bad faith as a way to capture some of the damages from the alleged infringement of the `051 patent***....Therefore, the plaintiff is estopped from asserting this new position at trial on the `265 patent." Dkt. 349 at 5-7 (emphasis added).

3. MercExchange attacked eBay's expert, Former Commissioner Mossinghoff, "purely for strategic purposes."

When eBay uncovered the inequitable conduct in the `051 patent prosecution, MercExchange attempted to intimidate and harass eBay's inequitable conduct expert witness, former PTO Commissioner Gerald Mossinghoff. MercExchange conjured an "ethical conflict" allegation against W. Mossinghoff, and then secretly contacted W. Mossinghoff directly, and threatened to "publicly air" ethics charges against him unless Mr. Mossinghoff withdrew:

> Finally, we do not want to have to engage in unnecessary motion practice before the Court in which such *ethical issues will be publicly aired* when your Firm's obligations are quite clear in this regard.

> *I know it goes without saying that you are not at liberty to share this communication on behalf of our mutual client [sic] with counsel for eBay.*

(Dkt. 210, Ex. 22 (Letter from Robertson to Gholz (9/30/02) (emphasis added))).†

When Mr. Mossinghoff declined to withdraw, MercExchange made good on its threat: During a November 13, 2002 hearing on another subject, when eBay had no notice and no opportunity to respond, MercExchange made false allegations regarding' Commissioner Mossinghoff, inducing Judge Bradberry to remark on the record that "That's a good reason to move to disqualify him." Dkt. 229 at 128:10-11. Mr. Woolston then published Judge Bradberry's comments about Commissioner Mossinghoff on the Internet.

Mr. Woolston also filed a false *pro se* state bar complaint against Mr. Mossinghoff, with a New Year's Eve deadline to respond. MercExchange asked the Court to "disqualify" Mr. Mossinghoff on an ex pane record, without giving eBay and Mr. Mossinghoff an opportunity to defend themselves. See D. 230, 238-39. Ultimately, this Court granted eBay's request for expedited consideration and rejected MercExchange's arguments, denying MercExchange's motion to disqualify Mr. Mossinghoff and noting that "***The timing of this Motion to Disqualify [by Woolston and MercExchange] appears to be purely for strategic purposes.***" Dkt. 240 at 11 (emphasis

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† MercExchange recognized that its threats to the Oblon firm, Mr. Gholz, and Commissioner Mossinghoff were improper. In fact, Virginia Rule of Professional Conduct 3.4(h) provides that a lawyer shall not "[p]resent or threaten to present criminal or disciplinary charges solely to obtain an advantage in a civil matter." VA. R. PROF. CONDUCT 3.4(h). Furthermore, Rule 3.4(i) states that an attorney shall not: "File a suit, initiate criminal charges, assert a position, conduct a defense, delay a trial, or take other action on - behalf of the client when the lawyer knows or when it is obvious that such action would serve merely to harass or maliciously injure another." VA. R. PROF. CONDUCT 3.4(i) (emphasis added).

added). The Virginia State Bar also *rejected* Woolston's attack, dismissing his inappropriate holiday-season state bar assault.

4. MercExchange Threatened to Sue Fact Witnesses if They Testified Pursuant to Valid Subpoenas.

Commissioner Mossinghoff was not the only material witness that MercExchange threatened. Mr. Woolston's failed efforts to build his own systems proved that he had failed to enable them, but MercExchange threatened witnesses who knew anything about it. For example, eBay subpoenaed documents and testimony from two third-party witnesses who were involved with Mr. Woolston's unsuccessful attempts to build his invention at Aden Enterprises and Leftbid.com, Joseph Petsick and Kenneth Maxwell. Messrs. Petrick and Maxwell agreed to comply with the subpoenas. However, with the depositions set to proceed the next business day, MercExchange ghost-wrote a motion to quash the subpoenas, and attempted to force Messrs. Petsick and Maxwell to file them, threatening suit if they did not: "on June 7th, I think, roughly around 4 p.m. he was told if we did not move forward with the motion to quash-I believe was the word that was used-that a lawsuit was threatened against us as individuals by ... Hunton & Williams." Dkt. 524 (Petsick Tr.) at 106:2-18; Dkt. 512 (Maxwell Tr.) at 91:2-92:8.

D. MercExchange Took Unsupported and Unjustifiable Positions Only to Abandon Them at Trial After the Defendants Expended Significant Time and Effort Preparing to Rebut Them.

During the course of the case, MercExchange took, litigated, and then abandoned positions that were patently absurd. For example, MercExchange contended that the license agreements between MercExchange, on the one hand, and Aden Enterprises, LeftBid, and Navlet, on the other hand,

were all "arm's-length transactions." MercExchange's damages experts stated in their reports that:

> Mr. Weinstein further contends that the license agreements entered into by MercExchange with the Aden entities were not the result of arms-length negotiations, and had no value to MercExchange. We believe that the facts cited by Mr. Weinstein in his report further support the arms-length nature of these transactions.

Dkt. 560, Ex. 3, 117 (Feb. 28, 2003). After the defendants spent significant time and effort responding to MercExchange's argument, MercExchange recanted at trial:

> MR. STILLMAN: [The license agreements] are not, and I've never contended that they are arm's length transactions. They are clearly related parties. As a matter of fact, I brought that out on direct, that these were related party transactions because Mr. Woolston was an officer both in Aden and in MercExchange at the time. And so I've never contended otherwise, and I would stipulate to that fact and we can move on .. .

Tr. 561:12-20 (emphasis added).

* * * *

but in any event, defendants filed multiple motions for summary judgment because MercExchange sued multiple defendants on multiple different patents. Defendants filed one pre-*Markman* motion and one post-*Markman* motion each for the '176 and the '265 patents (Dkt. 47, 49, 220, 2S0)—the other summary judgment motions addressed the '051 patent, which the Court *repeatedly* held invalid. Dkt. 212, 250, 274. The Court did not grant all of the defendants' summary judgment motions, but the Court did not state that any of eBay's motions were in "bad faith," "purely for strategic purposes," "ridiculous," "completely inappropriate," "wholly improper," or "disingenuous—statements the Court

reserved to describe various MercExchange pleadings.[1] Dkt. 349, 240, 274, and Tr. 2125:1-3.

C. MercExchange Should Not Be Rewarded for Its Own Misuse of the Discovery Process.

MercExchange asserts that it was "forced" to file nine motions to compel as a result of the defendants "obstruction." In fact, many of MercExchange's motions to compel were completely unnecessary, and nothing more than part of MercExchange's strategy to manufacture a false "record." Second, several discovery disputes resulted from MercExchange's improper attempts to harass, intimidate, and burden eBay's executives.

1. MercExchange filed unnecessary motions without any meet and confer.

During trial, the Court noted that the parties should simply call each other to resolve disputes. Tr. 1077:2-13. Regrettably, throughout discovery, counsel for MercExchange ***ignored*** the local rule requiring the parties to meet and confer in person or by telephone before filing a motion arising from a discovery dispute, and surprised defendants with numerous unnecessary motions:

- MercExchange's first motion to compel sought

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[1] MercExchange emphasizes that the Court struck a "fictitious" demonstrative graphic from the '265 pre-*Markman* summary judgment declarations of Messrs. DiMaggio and Magliato, calling the demonstrative graphic "highly misleading." According to MercExchange, the defendants attempted to "trick" the Court into believing that the graphic was part of the AMC *patent*. To the contrary, both Messrs. DiMaggio and Maglioto declared, under penalty of perjury, that the demonstrative graphic showed how the *commercial* AMC system *worked*. Dkt. 50. Neither of them said that the graphic was from the *patent*, and defendants never asserted otherwise. MercExchange had no reason to accuse Messrs. DiMaggio or Maglioto of lying about the commercial system, but nonetheless confused the distinction between the patent and the commercial embodiment.

production of *all* (1) defendants' patent applications, (2) documents relating to governmental investigations into alleged antitrust violations, consumer fraud, or unfair business practices, and (3) documents relating to eBay's lobbying efforts. Dkt. 42. Although the documents were irrelevant, MercExchange filed a motion to compel without any discussion or consideration of alternatives for the production of unnecessary documents. Dkt. 71, at 3. ***After MercExchange filed the motion***, the parties met and conferred and reached agreement, and ***MercExchange withdrew its motion to compel as moot.*** Dkt. 61.

- MercExchange asserts that it was "forced" to file its second motion to compel as a stick to "prod" the defendants to provide deposition dates that had been outstanding for "several weeks." Motion, at 10. To the contrary, the defendants responded to MercExchange's deposition notices within two business days of receipt, and arranged for a telephone conference to set a deposition schedule within a week. Dkt. 88, at 3; Ex. A. Nevertheless, MercExchange filed a motion to compel ***the day before the scheduled call – undoubtedly to create a misleading record that the motion to compel was necessary to force the defendants to act.*** Dkt. 43, 44. The parties had the telephone *conference, and* ***MercExchange withdrew its motion as moot.***

- Similarly, in its "Fourth" Motion to Compel, MercExchange sought supplemental responses to *900* requests for admission. Dkt. 68. Instead of a meet and confer, MercExchange sent a letter demanding supplemental responses to the RFAs by April 19, 2002. Dkt. 71, Ex. A. On April 18, 2002 ***– the day before its own deadline and the day***

before eBay served supplemental responses, MercExchange filed its motion. Dkt. 67.

These are only a few examples - others abound. MercExchange should not be rewarded for burdening the Court and the defendants with such motions.

2. MercExchange misrepresents the record and complains about things that did not happen.

In an effort to distract the Court from the post-trial JMOLs and new trial motions, MercExchange launches into a laundry list of false complaints, arguing things that simply ***did not happen.*** The Court should not be distracted by such red herrings, which do not justify this motion, and should not deflect attention from the underlying merits of defendants' JMOL and new trial motions.

- First, MercExchange argues that eBay "cancelled" depositions. eBay did no such thing. The parties *agreed* to postpone the individual depositions of the three eBay employees, so that the 30(b)(6) and individual depositions could be combined, and all three depositions proceeded. *See* Dkt. 88, at 4.

- Second, MercExchange argues that eBay did not adequately answer over 1,000 requests for admission, many of which asked eBay to confirm the truth of every statement in massive *documents*. Dkt. 88, at 4-9. Although the requests for admissions required eBay to admit or deny the truth of over 11,000 individual facts, Judge Bradberry and MercExchange insisted that eBay answer them. Dkt. 251, at 23 n.10. The defendants did, but none of them surfaced at trial.

- Third, MercExchange claims that the defendants only produced their source code after

relevant depositions had been taken. MercExchange is wrong. eBay and ReturnBuy produced their complete source code well before ***any*** depositions in the case. The source code provided after the depositions was merely an update that reflected changes implemented since the initial production. With respect to Half.com, the defendants corrected an oversight in their production of source code after it was discovered at the deposition, and voluntarily made the witness available for a second deposition.

- Fourth, MercExchange claims that the defendants improperly withheld numerous documents from production, including e-mail, 'engineering documents, and acquisition agreements. Dkt. 59. In fact, in response to MercExchange's third motion to compel, Judge Bradberry limited virtually all of MercExchange's excessive discovery requests to a very small subset of the documents requested by MercExchange. See Dkt. 105.

MercExchange's false discovery complaints are a waste of time, a waste of money, and an abuse of the judicial process.

3. MercExchange should not be rewarded for its own unreasonableness.

If, in spite of the fact that eBay and Half.com mounted a compelling defense, the Court elects to relive each discovery dispute, it should also note that MercExchange's own obstinacy and unreasonableness caused the vast majority of them.

- For example, MercExchange complains that eBay refused to designate a deponent for Topic 18 from the 30(b)(6) notice to eBay. In fact, eBay told MercExchange on ***four separate occasions*** that it would designate a witness on the topic if

MercExchange would simply explain what the topic meant. Dkt. 134, at 2-4; Exs. A-D. MercExchange unreasonably refused. It was only when MercExchange filed another pointless motion to compel that MercExchange explained that Topic 18 was directed towards Billpoint. Over the next six months, eBay offered MercExchange a witness on Topic 18 at least three times. *See, e.g.*, Dkt. 134, at 5, Ex. 4. ***MercExchange* chose *not to take the deposition any of the times it* was *offered.***

- Similarly, MercExchange complains that the defendants refused to agree to produce documents from Billpoint. The document production was requested through a subpoena served on Billpoint on June 10, 2002. Dkt. 193, Ex. 1. The subpoena purported to require production of the documents in Washington, D.C. on June 14, 2002 - less than four business days later. Because of the unreasonably short time provided by MercExchange for the production, the defendants moved to quash the subpoena, and later appealed the Magistrate Judge's decision to the District Court, which never ruled on the motion. Before the District Court ruled on the appeal, the defendants produced the requested documents. Dkt. 193, at 2-5. Again, the entire dispute could have been avoided if MercExchange had provided reasonable notice of the subpoena.

Again, MercExchange should not be rewarded for its conduct that resulted in unnecessary time and expense in litigating this case.

4. MercExchange attempted to harass and embarrass high ranking executives of eBay, resulting in several needless discovery motions.

A number of other disputes that arose during discovery in this case were the result of MercExchange's improper attempts to harass and embarrass executives of eBay. At the deposition of Mr. Omidyar, MercExchange attempted to concoct a frivolous "contempt" charge, and accused Mr. Omidyar of stealing the idea of eBay from his former employer, General Magic—a ridiculous assertion that General Magic does not believe. Dkt. 251, at 7-10.

Judge Bradberry ultimately denied the frivolous motion for contempt. However, at the hearing, Judge Bradberry, on his own and with an incomplete record, commented that counsel for eBay had made improper objections at the deposition. Motion, at 13-14. Judge Bradberry then *voluntarily offered* MercExchange the right to take another deposition of Mr. Omidyar, even though MercExchange had never requested such relief. Motion, at 13. MercExchange accepted Judge Bradberry's *sua sponte* invitation and filed a motion seeking a second deposition of Mr. Omidyar and Mr. Monahan – who had never been mentioned at the hearing. Dkt. 243, 244. Although Judge Bradberry's comments were aired in Court and published on the Internet before eBay had an opportunity to respond, the defendants were finally able to present a complete record of MercExchange's conduct during the deposition. Dkt. 251. Apparently unwilling to have its own conduct judged on the facts, rather than an incomplete record, MercExchange quietly abandoned its motion.

Counsel for MercExchange was similarly abusive with eBay's CEO, Meg Whitman. MercExchange noticed her deposition for May 30, 2003. Upon receipt of the deposition notice, Ms. Whitman cancelled a meeting with a member of Congress and cleared her schedule to attend. A few days later, counsel for MercExchange decided that the date it

selected for the deposition was inconvenient for Mr. Robertson, and demanded that Ms. Whitman clear *another day*. The defendants had no choice but to raise the matter with Judge Bradberry, who forced MercExchange to take the deposition on the date that it had selected.[§] Dkt. 112. Conduct such as this by MercExchange resulted in the contentiousness of this case, and MercExchange should not profit from its own improper behavior.

5. The defendants have not served burdensome discovery requests on MercExchange.

MercExchange next contends that the defendants served "onerous" discovery requests. In support of its claim, MercExchange only cites two examples. Both are without merit. First, MercExchange complains that the defendants deposed Mr. Woolston for four days, and asked the Court for one additional day. MercExchange's argument is absurd. Mr. Woolston was the central witness in the case, and was MercExchange's sole 30(b)(6) designee. Mr. Woolston's evasive answers and counsel's improper objections completely obstructed the deposition, and as a result of that conduct, the defendants never completed their discovery of MercExchange. Dkt. 251, at 20-23 (explaining misconduct at the MercExchange deposition).

Second, MercExchange frivolously complains that the defendants noticed eight depositions on the final day of discovery. MercExchange fails to inform the Court that the only reason eight depositions were necessary on that day was, in part, because MercExchange interfered with the defendants' efforts to take numerous third party depositions earlier. Dkt. 119, at 3-7. As a result of MercExchange's interference, the defendants were forced to file motions to

---

[§] MercExchange's conduct during her deposition was no better. MercExchange spent its time during the deposition asking Ms. Whitman hypothetical questions about patent law.

compel and await rulings before the depositions could proceed. Therefore, MercExchange's improper conduct is to blame for the number of depositions taken late in the discovery period and its motion for enhanced damages should be denied accordingly.

MercExchange cannot seriously contend that the defendants served "onerous" discovery requests in this case. MercExchange deposed the defendants for weeks, while the three defendants collectively deposed MercExchange for ***four***. Dkt. 259, at 19. When the defendants asked for one more day, Judge Bradberry refused. Dkt. 142. Similarly, the defendants produced over 500,000 pages of documents. MercExchange produced less than 1/10th of that-amount. Finally, MercExchange served over ***1,200*** requests for admissions on the defendants that amounted to more than 11,000 because of their nature, but refused to answer eBay's RFAs, which were far less burdensome. Dkt. 251, at 23 n.10.

Therefore, it is the defendants who suffered "onerous" discovery, much of which was never used by MercExchange in the litigation: -

- For example, MercExchange insisted that eBay restore a back-up tape with-information regarding the eBay sys as it existed in 1996 – ***a full* two *years before any of the patents in suit issued***. Despite its irrelevance, the defendants did so at a cost of almost $6,000. Dkt. 71, at 6. None of the information from the back-up tape was ever used by MercExchange.

- Similarly, MercExchange made a specific request for documents relating to the NES litigation. MercExchange claimed that the information was relevant to its damages analysis. eBay produced 55 boxes of documents regarding the litigation. After a review by two Hunton & Williams paralegals, Scott Robertson wrote a letter

asserting that the documents were largely irrelevant." Dkt. 71, at 6. At trial, MercExchange's damages experts testified that they had no knowledge of the NES litigation or license agreement. Tr. 2057:5-7.

- Finally, MercExchange insisted that eBay produce a number of documents relating to a preliminary investigation conducted by the Department of Justice. Although the documents were wholly irrelevant, and excluded at trial, the defendants complied with the request. MercExchange didn't even bother to look at the documents for weeks. Dkt. 71, at 5.

These are just a few examples. Thus, MercExchange's "argument" that the defendants served "onerous" discovery is absurd and is not a basis for enhancing damages.

6. The defendants did not engage in any other "litigation misconduct."

MercExchange argues that the defendants engaged in "other litigation misconduct," both before and during trial. MercExchange is wrong:

The first two issues raised by MercExchange (the service of allegedly improper "supplemental" expert reports and the defendants alleged late disclosure of prior art) have been addressed by the Court before and ***rejected***. Dkt. 226, 240. Therefore, MercExchange's current motion is nothing more than a request that the Court reconsider its prior rulings on these same arguments.

MercExchange next complains that the defendants filed 17 motions *in limine* prior to trial. Filing 17 motions in *limine* was not "misconduct" given all of the improper evidence that MercExchange intended to introduce at trial. Indeed, a significant number of the motions were granted, in whole or in part. Dkt 401, 416; MIL Nos. 1, 3, 4, 5, 6, 7, 8, and 9.

Nevertheless, MercExchange violated the orders several times during the trial.

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Aug. 7, 2003]

Case Number 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,
Defendants.

[X] Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

[X] Decision by Court. This action came for determination before the Court on motions. The issues have been considered and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that judgment is entered for the plaintiff in the amount of $29.5 million. This consists of $10.5 million for eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent. This judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and postjudgment interest at the standard rate.

IT IS FURTHER ORDERED AND ADJUDGED that Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent is DENIED; eBay and Half.com's Renewed Motion for Judg-

ment as a Matter of Law and Motion for a New Trial on the '265 Patent is DENIED; eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiffs Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law Is DENIED in part and GRANTED in part; the plaintiff's Motion for Entry of a Permanent Injunction Order is DENIED; the plaintiff's Motion to Enforce Judge Friedman's Injunction Order, of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003 is DENIED; the plaintiffs Renewed Motion for Judgment as a Matter of Law is DENIED; the plaintiffs Motion for Prejudgment and Postjudgment Interest is GRANTED, with the exception of the interest rate used; the plaintiff's Motion for Post-Verdict and Postjudgment Accounting is DEFERRED pending appeal; the plaintiffs Motion for Enhanced Damages Under 35 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285 is DENIED.

Date: August 6, 2003

ELIZABETH H. PARET, CLERK

By: /s/ VALERIE A. WARD
Valerie A. Ward, Deputy Clerk

NOTE: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public order.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

03-1600, -1616

MERCEXCHANGE, L.L.C.,

Plaintiff-Cross Appellant,

v.

EBAY, INC. AND HALF.COM, INC.,

Defendants-Appellants.

ON MOTION

Before MICHEL, *Chief Judge*, CLEVENGER and BRYSON, *Circuit Judges*.

ORDER

Appellants eBay and Half.com have moved this court to take judicial notice of an office action of the Patent and Trademark Office pertaining to the reexamination of one of the patents at issue in this case. This court is authorized to take judicial notice of official proceedings, including actions of the Patent and Trademark Office in reexamination proceedings. *See Viskase v. Am. Nat'l Can Co.*, 261 F.3d 1316, 1328 n.2 (Fed. Cir. 2001); *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 514 n.3 (Fed. Cir. 1990), citing *Massachusetts v. Westcott*, 431 U.S. 322, 323 n.2 (1977); *see generally* Fed. R. Evid. 201.

A motion is not necessary to enable us to take judicial notice of official proceedings. While the appellants have not expressly stated why they believe it is necessary, at this stage of the proceedings, to move for us to take judicial notice of

the reexamination proceedings in the PTO, we assume that they intend to rely on the reexamination decision in subsequent proceedings in this appeal or in later stages of this litigation. We have held, however, that a letter to the court advising us of reexamination proceedings is sufficient to make the matter a part of the record on appeal. *See Standard Havens Prods.*, 897 F.2d at 514 n.3. Because the present motion is unnecessary, we deny the motion on that ground.

April 26, 2005

FOR THE COURT

/s/Jan Horbaly
JAN HORBALY

Clerk

cc: Scott L. Robertson, Esq.
Jeffrey G. Randall, Esq.

Office Action in Ex Parte Reexamination	Control No. 90/008,856	Patent Under Reexamination 6845255	
	Examiner Stefano Kamras	Art Unit 3624	

– The MAILING DATE of this communication appears on the cover sheet with the correspondence address –

a☐ Responsive to the communication(s) filed on ____. b☐ This action is made FINAL.
c☐ A statement under 37 CFR 1.530 has not been received from the patent owner.

A shortened statutory period for response to this action is set to expire 2 month(s) from the mailing date of this letter. Failure to respond within the period for response will result in termination of the proceeding and issuance of an ex parte reexamination certificate in accordance with this action. 37 CFR 1.550(d). EXTENSIONS OF TIME ARE GOVERNED BY 37 CFR 1.550(c). If the period for response specified above is less than thirty (30) days, a response within the statutory minimum of thirty (30) days will be considered timely.

Part I THE FOLLOWING ATTACHMENT(S) ARE PART OF THIS ACTION:

1. ☐ Notice of References Cited by Examiner, PTO-892.
2. ☒ Information Disclosure Statement, PTO-1449.
3. ☐ Interview Summary, PTO-474.
4. ☐ ____.

Part II SUMMARY OF ACTION

1a. ☒ Claims 1-29 are subject to reexamination.
1b. ☐ Claims ____ are not subject to reexamination.
2. ☐ Claims ____ have been canceled in the present reexamination proceeding.
3. ☐ Claims ____ are patentable and/or confirmed.
4. ☒ Claims 1-29 are rejected.
5. ☐ Claims ____ are objected to.
6. ☐ The drawings, filed on ____ are acceptable.
7. ☐ The proposed drawing correction, filed on ____ has been (7a☐) approved (7b☐) disapproved.
8. ☐ Acknowledgment is made of the priority claim under 35 U.S.C. § 119(a)-(d) or (f).
   a☐ All b☐ Some* c☐ None of the certified copies have
   1☐ been received.
   2☐ not been received.
   3☐ been filed in Application No. ____.
   4☐ been filed in reexamination Control No. ____.
   5☐ been received by the International Bureau in PCT application No. ____.
   * See the attached detailed Office action for a list of the certified copies not received.
9. ☐ Since the proceeding appears to be in condition for issuance of an ex parte reexamination certificate except for formal matters, prosecution as to the merits is closed in accordance with the practice under Ex parte Quayle, 1935 C.D. 11, 453 O.G. 213.
10. ☐ Other ____.

cc: Requester (if third party requester)

U.S. Patent and Trademark Office
PTOL-466 (Rev. 04-01) Office Action in Ex Parte Reexamination Part of Paper No. 01242005

BEST AVAILABLE COPY

Supreme Court, U.S.
FILED
JAN 26 2006
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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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January 26, 2006

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

PARTIES TO THE PROCEEDINGS

In addition to the parties named in the caption, ReturnBuy, Inc. was initially a defendant in this action. Prior to trial, ReturnBuy, Inc. filed for bankruptcy protection and settled with respondent MercExchange, L.L.C.

Petitioner eBay Inc. has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Petitioner Half.com, Inc. is a wholly owned subsidiary of Petitioner eBay Inc., which is a publicly held corporation.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-28a) was entered on March 16, 2005, and is reported at 401 F.3d 1323 (Fed. Cir. 2005). The order of the court of appeals denying the petition for panel rehearing and rehearing *en banc* (Pet. App. 77a-78a) was entered on April 26, 2005, and is unreported. The opinion of the United States District Court for the Eastern District of Virginia (Pet. App. 29a-74a) was entered on August 6, 2003, and is reported at 275 F. Supp. 2d 695 (E.D. Va. 2003).

JURISDICTION

The court of appeals entered its judgment on March 16, 2005. Petitioners timely filed a petition for panel rehearing and rehearing *en banc* on March 30, 2005, which the court of appeals denied on April 26, 2005. Petitioners timely filed their petition for certiorari on July 25, 2005, and this Court granted the petition on November 28, 2005. This Court has jurisdiction under 28 U.S.C. § 1254(1).

RELEVANT STATUTORY PROVISIONS

35 U.S.C. § 283 provides that:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

The other relevant provisions are reproduced in the appendix to this brief.

STATEMENT OF THE CASE

35 U.S.C. § 283 unequivocally provides district courts with equitable discretion because Congress provided that district courts "may"—not "shall"—grant or deny injunctive relief

"in accordance with the principles of equity." *Id.* Those familiar equitable principles are irreparable injury, adequacy of the remedy at law, balancing of the hardships, and the public interest. Further, § 283 vests discretion in the district courts. Thus a district court's determination under § 283 can be reviewed only for an abuse of discretion. In the decision below, the Federal Circuit violated each of these aspects of § 283.

By setting out a near-automatic rule requiring district courts to issue permanent injunctions after a finding of infringement, the Federal Circuit effectively eliminated the district courts' discretion to deny injunctive relief based on the traditional four-factor test. In this case, the district court denied a permanent injunction after careful and reasonable consideration of these four equitable factors. However, the Federal Circuit did not review the district court's determination for abuse of discretion in the application of those four factors. Instead, it held that the district court had not provided a persuasive reason to deny an injunction—a virtually impossible task under the Federal Circuit's near-automatic injunction rule.

When the dictates of 35 U.S.C. § 283 to use the four-factor test and the abuse-of-discretion standard of review are followed, the district court's determination was more than reasonable, and can only be affirmed. It could not be an abuse of discretion for the district court to deny a permanent injunction where the patentee had never built or practiced its invention, exists solely to license its invention, and has publicly stated that it is only interested in royalties, and the defendant will try to design around the patent rather than continue to infringe. Under these circumstances, any possible harm is not irreparable and can be adequately compensated with money damages.

Reversing the Federal Circuit would take away from patentees only what Congress never gave them: the tremendous *in terrorem* leverage of a permanent injunction in settlement negotiations. Given the possibilities of violating the injunction order due to often vaguely defined patents, and triggering the severe contempt powers of a federal court, most defen-

dants are coerced into settling and must abandon even meritorious appeals, as well as reexamination challenges in the Patent and Trademark Office ("PTO"). Detached from the principles of equity, the Federal Circuit's near-automatic rule improperly turns injunctive relief from a remedy designed to protect against patent violations into a "club to be wielded by a patentee to enhance his negotiating stance." *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

STATEMENT OF FACTS

1. Petitioner eBay operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods either through an auction-style format or at a fixed price. Buyers browse or search those listings and purchase goods directly from the sellers in "person to person" transactions. eBay was launched in September of 1995, and has since become one of the largest online marketplaces, with more than a hundred million registered members located around the world. Petitioner Half.com, a wholly-owned subsidiary of eBay, operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods directly from sellers at a fixed price. As the Federal Circuit noted, "[a]t issue in this case is the fixed-price purchasing feature of eBay's website, which allows customers to purchase items that are listed on eBay's website for a fixed, listed price." Pet. App. 2a.

Respondent MercExchange, L.L.C. ("MercExchange") is an entity that, as the district court found, "does not practice its inventions and exists merely to license its patented technology to others." Pet. App. 54a. In September of 2001, MercExchange filed a lawsuit in the United States District Court for the Eastern District of Virginia, claiming that eBay, Half.com, and ReturnBuy, Inc. infringed upon three patents.

nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). *Id.* at 1a.[1]

2. MercExchange was founded by the sole named inventor of the patents in suit, Thomas Woolston, a patent attorney. Woolston's idea was to computerize traditional consignment store operations by establishing an "'electronic network of consignment stores.'" Pet. App. 4a. These consignment "stores"—or "nodes"—would be managed exclusively by trusted ("vetted" and "franchised") "consignment node operators." That trusted node operator—not an anonymous seller—would ensure that the good offered for sale was bona fide, take possession of the good, obtain the right to transfer ownership through a bailment or consignment contract, and post a description of the good on the consignment network. JA 386 (Abstract); 400 (2:19-67); 335-36; 569-70. Additionally, only trusted consignment node operators could post goods on the network.

The primary concern behind Woolston's system of trusted consignment node operators was that potential buyers wishing to purchase a good would *not* take the "leap of faith" necessary to deal directly with an anonymous or unfamiliar seller. JA 176; 877-78. Similarly, while a system involving a trusted intermediary that can take possession of a good is capable of transferring legal ownership, a person-to-person system (such as eBay's) that never takes possession cannot. JA 165-67; 429 (17:1-12, 18:27-37); 208.[2]

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[1] Prior to trial, ReturnBuy, Inc., ("ReturnBuy"), which owned and operated an Internet website that directed its customers to eBay's website where they could purchase ReturnBuy's goods, filed for bankruptcy protection and executed a settlement with MercExchange, in which ReturnBuy was granted a nonexclusive license.

[2] eBay does not own, take possession of, inspect or transfer ownership of the goods posted on its website. JA 175-78; 197-201; 207-09. Individual buyers and sellers are responsible for and in fact complete transactions directly with each other. JA 178-79; 204-07.

Woolston filed a patent application on his consignment concept in April 1995, but ultimately was forced to abandon this application after repeated rejections by the PTO. Since then, MercExchange has filed dozens of patent applications, all based on Woolston's consignment concept.

In September 1995, eBay launched its website and established a system that is the polar opposite of Woolston's consignment concept. Adopting the very philosophy that Woolston shunned, eBay implemented a person-to-person model on the revolutionary assumption that even anonymous buyers and sellers are basically good and will not cheat one another. JA 198-201; 568-69; 769; 770-72; 774-75; 89. In eBay's model, buyers and sellers deal directly with one another and consummate transactions themselves. JA 177-78; 570-72; 94. eBay also does not, contrary to Woolston's consignment concept, act as a gatekeeper for its website by assuming exclusive control over all items posted for sale. eBay does not direct, act as an intermediary, nor take responsibility for consummating transactions between buyers and sellers. JA 178-79; 199-207. Unlike Woolston's concept, eBay does not take possession of the goods, inspect them, confirm they are bona fide or obtain any right to transfer legal ownership. JA 177-81; 723-25; 767-68.

Two months after eBay's public launch, MercExchange filed another patent application in November 1995, seeking to expand the description in its original, rejected application. As eBay gained popularity, MercExchange continued to add new claims and, in 1998, ultimately convinced the PTO to issue U.S. Patent No. 5,845,265 ("the '265 patent"), at issue here. JA 386. By then, eBay had been operating its website for three years, achieving remarkable growth and success. JA 797-98; 809.

MercExchange, taking notice of eBay's success, developed a strategy of suing. JA 1028-32; 367-68. MercExchange, while secretly planning to sue eBay, contacted eBay under the guise of offering to assist eBay with another dispute. JA 310-

11; 588-89; 669-70; 671-75; 688-89; 742-45; 133-36; 143-45. The parties met in June 2000 and MercExchange carefully avoided suggesting that eBay infringed its patents. JA 681-82. Despite this, MercExchange sued in September 2001.

3. Prior to trial, the district court granted in part and denied in part eBay's motion for summary judgment as to the '051 patent, leaving the '265 and '176 patents for trial. The Court stated that each side presented "compelling evidence" concerning non-infringement of the '265 patent. Dkt. 274 at 5.

4. During a two-day *Markman*[3] hearing to construe the patents' scope, the parties hotly debated whether MercExchange could expand the claims-in-suit to cover person-to-person systems. JA 156-57. MercExchange repeatedly acknowledged that eBay was a "person-to-person" system but argued that its claims could cover such a system—despite the diametrically opposed "trusted intermediary" system on which its claims rested. *Id.*; JA 204-07. In contrast, eBay presented evidence that Woolston did not invent or disclose a system involving person-to-person transactions. JA 159-62. On the contrary, the patent teaches *away from* such transactions—everything disclosed in the '265 patent revolves around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. JA 159-62; 163-64; 165-67.

The district court construed the claims of the '265 patent to require an electronic market that comprises a "trusted network" that completes transactions for buyers and sellers and is capable of transferring "legal ownership" of an item for sale. *Id.* Moreover, the district court's *Markman* rulings expressly found that the '265 patent teaches away from a system of person-to-person transactions. JA 159-62; 163-64. The rulings further clarified that merely changing a "data record"

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[3] *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370 (1996).

to associate the good with the buyer instead of the seller is not enough to transfer ownership of the good. JA 165-67. Rather, a system based on '265 must be capable of *actually* transferring *legal* ownership—something eBay does not do. *Id.* MercExchange moved for reconsideration of the *Markman* rulings, but the district court reaffirmed them. JA 226-27; 256-60; 1037-79.

5. MercExchange and eBay filed initial cross-motions for a judgment as a matter of law ("JMOL") before the trial commenced. In denying MercExchange's motion, the district court stated that "it is clear to the Court that substantial questions exist as to whether the defendants infringe any of the asserted claims of the patent at issue." JA 868. Further, in denying eBay's motion, the district court found that "whether or not there was sufficient evidence on willfulness was a close call and the court reserved the right to revisit the issue after the jury returned its verdict." Pet. App. 70a.

6. Despite the district court's *Markman* ruling, MercExchange argued to the jury that eBay's person-to-person system was a "trusted network." *Compare* JA 159-62 *with* 904-05. MercExchange's own experts could not define the term, nor ascertain the boundaries of the claims:

> [T]hat question is very difficult to answer because trust is not an absolute. Trust is a goal. ... So if you get the feeling you are secure, you can trust it, then it is a question of trust. And there are many measures that demonstrate to increase your comfort level of trust. And if you have these things, then you will probably be trusted.

JA 776-78; *see also* 763-64 ("I don't think that the issue is cut and dry. ... I don't believe there is a single instantiation, but I believe that trust has typically some of these elements that I have talked about"); 776-79 (trust depends on the subjective comfort level of a person skilled in the art); 248-52 (MercExchange arguing that the term "trusted network," alone, does not provide sufficient guidance as to whether eBay's opera-

tions infringe and, without more, would violate "fundamental due process"). Similarly, MercExchange argued that mere modification of a data record could constitute a transfer of "legal ownership," despite the fact that the issue was resolved against MercExchange in the *Markman* rulings. *Compare* JA 165-67 *with* 905.

At the conclusion of the trial, the jury found that eBay had not overcome the presumption that the '265 and '176 patents were valid.[4] Further, the jury found that eBay had infringed both patents. In particular, the jury found that eBay had willfully infringed the '265 patent and had induced ReturnBuy to do the same. Further, the jury concluded that Half.com had willfully infringed the '265 and '176 patent. The jury held eBay liable for $10.5 million for infringement of the '265 patent and $5.5 million for inducing ReturnBuy to violate that patent. Half.com was found liable for $19 million for infringing both the '265 patent and the '176 patent.

Subsequently, eBay and Half.com filed a post-trial JMOL motion, and MercExchange filed a motion for a permanent injunction, enhanced damages, and attorneys' fees.

A. The District Court's Opinion

1. The district court agreed with eBay that the jury had improperly assessed damages for both infringement and inducement of the '265 patent. Finding that such damages amounted to a double-recovery, the district court reduced eBay's damages by $5.5 million. The district court, however, declined to set aside the jury verdict against eBay for infringement and for inducement of ReturnBuy to infringe.

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[4] Under 35 U.S.C. § 282, "[a] patent shall be presumed valid." "The decisionmaker is thus required to begin by accepting the proposition that the patent is valid and then look to the challenger for proof to the contrary." *Lear Siegler, Inc.* v. *Aeroquip Corp.*, 733 F.2d 881, 885 (Fed. Cir. 1984).

The district court denied MercExchange's request for enhanced damages and attorneys' fees. *Id.* at 67a-72a. Several of the court's findings militated against awarding enhanced damages or attorneys' fees against eBay.

> **The defendants maintain that their success did not arise from the use of anything contained in the plaintiff's patents. Moreover, the defendants argue that the patents offer no business or engineering guidance which the defendants could copy. This court agrees.** While the jury found that there was insufficient evidence to find these patents invalid for lack of enablement, there was expert testimony describing the lack of source code and other features which would allow another to implement these patents. Moreover, eBay was using payment processors long before it received notice of the '265 patent, despite the fact that the purchase of PayPal occurred following that time. Therefore, the court finds that this factor does not weigh in favor of enhancing the damages.

Id. at 68a-69a (emphasis added).[5] MercExchange did not even attempt to present evidence that any eBay engineer saw or used the MercExchange patents. The claims of the '265 patent relied on subject matter that was added by MercEx-

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[5] Indeed, MercExchange's own expert admitted that eBay had enjoyed significant commercial success before any claim for infringement:

> Q. And in studying eBay for this case, including the materials and information I've just read, you reached the conclusion that eBay has enjoyed significant commercial success, including industry recognition and awards, as of June 2000, correct?
>
> A. Yes.
>
> Q. And all of that success that eBay achieved was achieved prior to any claim that eBay infringed any patent in this case, right?
>
> A. I believe that timing is correct, yes.

JA 766-67. Another expert who testified on behalf of MercExchange, also conceded that eBay was a huge success by July 2000 before any alleged infringement. JA 797-98.

change in November 1995, two months after eBay had officially launched.

The district court reiterated that the "case was sufficiently close, a factor that weighs against the imposition of enhanced damages." *Id.* at 70a. Moreover, the court found that "there has been no indication that the defendants attempted to conceal their misconduct, nor has the plaintiff made such an allegation." *Id.* at 72a.

2. Using its equitable discretion under 35 U.S.C. § 283, the district court determined that a permanent injunction should not issue under the traditional four-factor test. The district court found that MercExchange would not suffer irreparable injury in the absence of a permanent injunction. The "evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue." *Id.* at 55a.; *id.* at 54a ("Indeed, the plaintiff has made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.")[6] Moreover, the district court considered, but did not find dispositive, MercExchange's failure to move for a preliminary injunction. *Id.* at 55a.

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[6] The district court quoted MercExchange founder Thomas Woolston as stating that, "'[I]t is not our goal to enforce these patents, we want to sell off our Intellectual Property rights.'" Pet. App. 54a n.13. Further, the district court noted that trial counsel for MercExchange had stated, "'We are seeking reasonable royalties as permitted under the patent laws. It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner.'" *Id.* There was record evidence that MercExchange had granted nonexclusive licenses to ReturnBuy, Goto.Com, LeftBid, NavLet, Aden, and AutoTrader. JA 235-37; 311-13; 321-25; 368-71; 735-38; Fed. Cir. A47243-63; A47304-22; A62238 n.13.

The district court further found that there was an adequate remedy at law, noting that "evidence showing that the patent holder is willing to license his patent rights 'suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case.'" *Id.* at 56a (alteration in original) (citation omitted). As the district court found, MercExchange "does not practice its inventions and exists merely to license its patented technology to others." *Id.* at 54a.

Third, as to the balance of the hardships, the district court found that because eBay was going to attempt to design around the patents, any injunction would lead to a multiplicity of costly and burdensome contempt proceedings. *Id.* at 59a. Noting that it could minimize any hardship to MercExchange by punishing continuing infringement with enhanced damages, the district court concluded that a balancing of the hardships tipped in eBay's favor. *Id.* at 59a.

The district court also found that the public interest prong neither counseled for or against granting an injunction. While it recognized the public's interest in the integrity of the patent system, the district court noted the concern, expressed by legislators and a former PTO official, over the heightened possibility of invalidity with a business method patent. *Id.* at 57a-58a. The court further noted that "in a case such as this, the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." *Id.* at 57a.

B. The Federal Circuit's Opinion

1. The Federal Circuit held that the '176 patent claims were invalid, and accordingly directed judgment for Half.com in that regard. Pet. App. 3a. The Federal Circuit further found that there was no substantial evidence to support the charge that eBay induced ReturnBuy to infringe the '265 patent. *Id.* However, the Federal Circuit held that substantial evidence supported findings of validity and infringement with

respect to the remainder of the '265 claims. The court also reversed summary judgment as to the '051 patent, and remanded for further proceedings.

The Federal Circuit held that the district court did not "abuse its discretion" in denying MercExchange enhanced damages and attorneys' fees, noting that the court "carefully analyzed each of the [relevant] factors and based its conclusions on the jury's factual findings and the evidence in the record." Pet. App. 28a.

2. In contrast, the Federal Circuit reversed the district court's determination that a permanent injunction was not warranted concerning the '265 patent. The court of appeals held that "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (citation omitted). The sole exception suggested by the Federal Circuit is when "'a patentee's failure to practice the planned invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *Id.* (citation omitted). Under this general rule, the court of appeals concluded that "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Id.*

First, the Federal Circuit stated that "[i]n its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of a 'growing concern over the issuance of business-method patents.'" *Id.* The court reasoned that "[a] general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief." *Id.*

Second, the Federal Circuit deemed irrelevant the district court's finding that granting an injunction would result in more litigation. Such continuing disputes, the Federal Circuit

held, were not unusual in patent cases. *Id.* at 27a. The Federal Circuit also held that the "fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled." *Id.* Lastly, the Federal Circuit held that MercExchange's choice not to seek a preliminary injunction was irrelevant. *Id.* at 27a-28a.

3. Subsequent to the district court's final judgment, the PTO initiated a reexamination of each of the three patents at issue in this case.[7] The Federal Circuit took judicial notice of the fact that reexamination was ordered for all three patents, it later declined to take judicial notice of the PTO's first office action rejecting all of the claims in the '265 patent. JA 1057. The PTO reexamination proceeding will continue independently of the instant litigation.

4. The Federal Circuit granted eBay's motion for a stay of the mandate pending the outcome of eBay's appeal to this Court. *Id.* at 75a-76a.

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[7] Patent reexamination is an administrative revocation proceeding, in which any person may request that the PTO revisit its initial finding of patentability. Upon a request for patent reexamination, a PTO examiner preliminarily determines whether a substantial new question of patentability exists. 35 U.S.C. § 303(a). After further examination, the PTO issues the "first office action," in which the patent examiner declares whether or not the patent is valid. The patent owner then has the opportunity to refute the rejections or narrow its claims by amendment. *Id.* § 304; 37 C.F.R. § 1.550(b). If the PTO ultimately finds that a patentee's claims remain invalid, the agency will issue a "final office action" pursuant to 37 C.F.R. § 1.570, which determination a patentee may challenge before the Board of Patent Appeals. 35 U.S.C. § 306. If the Board affirms the PTO's finding of invalidity, a patentee can appeal to the Federal Circuit or to the United States District Court for the District of Columbia. *Id.* §§ 141, 145. Any determination by the PTO or the Board of Patent Appeals during reexamination, including claim rejections, is nevertheless *not* a final adjudication until the appeals process has concluded. *Id.* § 307(a); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991).

SUMMARY OF ARGUMENT

I. A. A statute will be read to deprive a district court of equitable discretion to deny an injunction based on the four-factor test only if such a construction is "textually required." *E.g.*, *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001). Here, it is "textually required" that district courts *have* their full equitable discretion because 35 U.S.C. § 283 provides that a district court "may grant injunctions in accordance with the principles of equity."

The Federal Circuit's near-automatic injunction rule cannot be reconciled with the plain language of § 283. The sole argument that the Federal Circuit offered to justify its wooden approach is that 35 U.S.C. § 154(a)(1) provides a patentee with a "right to exclude." But, in the Patent Act itself, Congress has balanced that right to exclude with other competing interests, such as promoting competition and the economy.

In 35 U.S.C. § 283, Congress struck the balance by giving federal courts the express *discretion* to deny injunctive relief. Congress also protected the "right to exclude" by providing other potent remedies such as mandatory compensatory damages, including for post-judgment losses, pre-judgment interest, and the possibility of treble damages and attorneys' fees. Because Congress has itself balanced the interests, that should end the matter.

Nor can the Federal Circuit's near-automatic injunction rule be justified by invoking the notion that a patent is property. Section 261 of the Patent Act provides that "*[s]ubject to the provisions of this title*, patents shall have the attributes of *personal* property." 35 U.S.C. § 261 (emphasis added). Section 283's conferral on district courts of discretion to deny injunctive relief is a "provision[] of this title" to which every patent is expressly made "subject." Independently, the grant of injunctions in personal property cases is not nearly automatic, but rather is based on the traditional four-factor test.

B. 35 U.S.C. § 283 vests discretion in the district courts to apply the four-factor test. Section 283 thus limits a court of appeals to review only for an abuse of discretion.

The Federal Circuit violated § 283 by ignoring the abuse-of-discretion standard of review and, instead requiring the district court to provide a "persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." Pet. App. 26a. In contrast, when the four-factor test and abuse-of-discretion standard of review required by § 283 are applied, the district court's denial of an injunction can only be affirmed.

First, the district court reasonably found that eBay had shown an absence of irreparable harm because MercExchange licenses its patents for money, made repeated statements that damages were both adequate and the only relief it sought, and delayed two years before seeking any form of injunctive relief. *Id.* at 54a-55a. Second, the district court properly found, based on these same facts, that MercExchange's injury was monetary and thus it had an adequate remedy at law. Pet. App. 55-56a. This Court could stop there because "[t]he equitable remedy is unavailable absent a showing of irreparable injury," *Los Angeles* v. *Lyons*, 461 U.S. 95, 111 (1983), and "the inadequacy of legal remedies." *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 312 (1982).

In any event, the district court made reasonable findings concerning the other two factors in the four-factor test. The balance of hardships weighed against an injunction because, as eBay was attempting a work-around, additional litigation would be necessary with or without an injunction, and the threat of enhanced damages would deter post-verdict infringement. Pet. App. 58a-59a. Finally, the public interest did not favor an injunction because the public would benefit from continued access to the inventions at issue, and there was a possibility that subsequent regulatory action might invalidate or restrict the patent at issue. *Id.* at 57a. Indeed, after the judgment, the PTO reexamination process currently

has rejected all of the claims in the patent on which the Federal Circuit entered an injunction.

II. For two independent reasons, *Continental Paper Bag, Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908) ("*Continental Bag*"), does not preclude reading the plain language of 35 U.S.C. § 283 to accord district courts their traditional equitable discretion to grant or deny injunctions. First, *stare decisis* could apply only to *Continental Bag*'s holding, not its *dicta*. The holding of *Continental Bag* is limited to its ruling that a patentee's unreasonable nonuse of its invention does not deprive a district court of jurisdiction to grant an injunction. That ruling is irrelevant here.

Second, assuming, for the sake of argument, that the holding of *Continental Bag* required a near-automatic injunction rule in patent cases, that holding should be overruled. Such a holding is irreconcilable with the plain language of § 283; is contradicted by the intervening development of the law; is contrary to 76 years of practice in the federal courts after *Continental Bag*; ignores that in 2006, patent injunctions have vastly different, injurious consequences to the economy that did not exist in 1908; and ignores that an injunction can force a settlement of an alleged infringer's proper invocation of the PTO's reexamination process, a recourse not granted by Congress until 1980. Cumulatively, "changed circumstances and ... lessons of accumulated experience," *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997), would warrant overruling *Continental Bag*, if that were necessary to enforce the equitable discretion mandated by the plain language of 35 U.S.C. § 283.

ARGUMENT

I. THE FEDERAL CIRCUIT'S NEAR-AUTOMATIC INJUNCTION RULE CONTRAVENES THE EXPRESS LANGUAGE OF § 283.

35 U.S.C. § 283 expressly recognizes a district court's equitable discretion. By using the words "may grant injunctions

in accordance with the principles of equity," § 283 unambiguously confers discretion on district courts. Those "principles" are the four-factor test: irreparable injury, inadequacy of legal remedies, balancing of the hardships to the parties, and whether the public interest would be adversely affected. Moreover, section 283 places this equitable discretion in the district courts, i.e., "the several courts having jurisdiction of cases under this title." Section 283 thus obligates the court of appeals to adhere to the "necessarily narrow" standard of review for "abuse of discretion." *Sears, Roebuck & Co.* v. *Mackey*, 351 U.S. 427, 440 (1956) (Frankfurter, J., concurring).

In this case, the Federal Circuit's ruling violated both aspects of § 283. Its nearly-automatic injunction rule supplanted the district court's consideration of the fourfold "principles of equity." Further, by effectively reviewing *de novo* whether the district court provided a "persuasive reason" for its denial of an injunction, Pet. App. 26a, the Federal Circuit also departed from the proper abuse of discretion standard of appellate review. Under the correct test and the proper standard of review as required by § 283, the district court's denial of a permanent injunction can only be affirmed.

A. Section 283 Codifies Equitable Discretion.

1. Section 283 Provides Discretion To Deny An Injunction.

1. Section 283 provides that courts "may" grant injunctions. 35 U.S.C. § 283. It is an axiom of statutory construction that "[t]he word 'may' clearly connotes discretion." *Martin* v. *Franklin Capital Corp.*, 126 S. Ct. 704, 709 (2005) (alteration in original). That a district court "may" grant an injunction cannot be reformulated to mean that it "shall" do so in all but "'rare instances.'" Pet. App. 26a.

Similar to § 283, the Copyright Act provides that a district court "*may* ... grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain in-

fringement of a copyright." 17 U.S.C. § 502(a) (emphasis added). Emphasizing the word "may," this Court held that the Copyright Act does not require the automatic grant of an injunction. *New York Times* v. *Tasini*, 533 U.S. 483, 505 (2001) (citing *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994)); see also *Silverstein* v. *Penguin Putnam, Inc.*, 368 F.3d 77, 84 (2d Cir.) (noting that under § 502 "injunctive relief to enforce a copyright is not compelled") (citing *Dun* v. *Lumbermen's Credit Ass'n*, 209 U.S. 20, 23-24 (1908)), *cert. denied*, 125 S. Ct. 815 (2004).

Moreover, in the Patent Act, when Congress wanted to limit a district court's discretion concerning a remedy, it did so expressly. Thus, Congress provided that the "the court *shall* award the claimant damages...." 35 U.S.C. § 284 (emphasis added). Congress also knew how to enact a provision that expressly limited the discretion of the courts to exceptional circumstances. *Id.* § 285 ("The court *in exceptional cases* may award reasonable attorney fees to the prevailing party."). By contrast, § 283 places no such limits.

2. This Court does not interpret a federal statute to require an injunction without regard to equitable principles, unless this is "textually required." *Oakland Cannabis Buyers' Coop.*, 532 U.S. at 496 (because "the district court's use of equitable power is not textually required by any 'clear and valid legislative command,' the court did not have to issue an injunction."); see also *Amoco Prod. Co.* v. *Vill. of Gambell, Alaska*, 480 U.S. 531, 544 (1987) ("There is no clear indication in [the relevant statute] that Congress intended to deny federal district courts their traditional equitable discretion in enforcing the provision, nor are we compelled to infer such a limitation."); *Romero-Barcelo*, 455 U.S. at 313; *Hecht Co.* v. *Bowles*, 321 U.S. 321, 329 (1944) (injunctions should not issue as a matter of course because "if Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made").

In *Romero-Barcelo*, the First Circuit imposed a rule obligating district courts to issue permanent injunctions after a finding of a violation of the Federal Water Pollution Control Act ("FWPCA"). 456 U.S. at 311. This Court reversed:

> The grant of jurisdiction to ensure compliance with a statute hardly suggests an absolute duty to do so under any and all circumstances, and a federal judge sitting as a chancellor is not mechanically obligated to grant an injunction for every violation of law.

Id. at 313; *id.* at 311 (an injunction "'is not a remedy which issues as of course'"). This Court held that "[r]ather than requiring a district court to issue an injunction for any and all statutory violations, the FWPCA permits the district court to order that relief it considers necessary to secure prompt compliance with the Act." *Id.* The Court recognized that "[t]he exercise of equitable discretion ... must include the ability to deny as well as grant injunctive relief." *Id.* at 320.

Similarly, in *Amoco*, the Court reversed the Ninth Circuit's general rule obligating district courts to issue injunctions to prevent violations of the Alaska National Interest Lands Conservation Act ("ANILCA"). The Ninth Circuit's rejected rule bears a striking resemblance to the *per se* rule announced in the decision below. Compare *People of Vill. of Gambell* v. *Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985) ("injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances") with Pet. App. 28a ("the general rule [is] that courts will issue permanent injunctions against patent infringement absent exceptional circumstances"). In reversing the Ninth Circuit, this Court held that there was "no clear indication" that Congress had "intended to deny federal district courts their traditional equitable discretion in enforcing the [ANILCA] provision, nor are we compelled to infer such a limitation." *Amoco*, 480 U.S. at 544. The same is true here.

2. Section 283 Requires The Application of the Traditional Four-Factor Test.

Section 283 provides that a district court's discretion will be applied "in accordance with the principles of equity." 35 U.S.C. § 283. These familiar equitable principles are: irreparable injury; inadequacy of legal remedies; balancing of hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13; see also *Yakus* v. *United States*, 321 U.S. 414, 440 (1944); 42 Am. Jur. 2d *Injunctions* § 114 (2005). This Court has observed that "[t]hese commonplace considerations applicable to cases in which injunctions are sought in the federal courts reflect a 'practice with a background of several hundred years of history,' a practice of which Congress is assuredly well aware." *Romero-Barcelo*, 456 U.S. at 313 (citation omitted). Accordingly, injunctive relief is available when the district court finds that, on balance, the four "principles of equity" support an injunction.

3. The Federal Circuit Provided No Adequate Justification For Rejecting Equitable Discretion And The Four-Factor Test.

The district court in this case correctly analyzed MercExchange's motion for a permanent injunction under the four-factor test, and properly exercised its discretion to deny such relief. The Federal Circuit reversed, holding that MercExchange enjoyed a "right to an injunction" to which it was "entitled." Pet. App. 27a. Under this rule, once infringement is found, a district court must grant an injunction except in those "rare instances" where an injunction would harm the public interest. *Id.* at 26a. That exception is not only "rare[ly]" applied, the Federal Circuit has only identified public health as rising to the level of such an exception. The Federal Circuit's zero (or at most one) factor test is the antithesis of the traditional four-factor approach.

The Federal Circuit's sole argument for its near-automatic injunction rule is that "the 'right to exclude recognized in a patent is but the essence of the concept of property.'" Pet. App. 26a (citation omitted). This argument is wrong for two independent reasons. First, Congress has itself determined whether the statutory "right to exclude" requires a near-automatic injunction rule. Congress provided its answer in § 283, which does *not* create a special rule of injunctive relief for patent cases. Rather, it codifies a highly discretionary approach, guided by the general "principles of equity." Second, the near-automatic rule posited by the Federal Circuit also misstates the approach used in personal property cases generally.

a. Section 283 Rejects the Proposition That The Statutory "Right to Exclude" Requires A Special Rule For Injunctive Relief In Patent Cases.

35 U.S.C. § 154(a)(1) provides that "[e]very patent shall contain ... a grant to the patentee ... of the right to exclude others from making, using, offering for sale, or selling the invention." The Federal Circuit incorrectly approached this case as if Congress itself had not answered the question whether this statutory "right to exclude" required a special rule for injunctive relief in patent cases. In 35 U.S.C. § 283, Congress answered that question "no" by adopting the general "principles of equity" rather than a special, near-automatic injunction rule for patent cases.

If there were any doubt, it would be removed by 35 U.S.C. § 261. As the Federal Circuit observed, the "right to exclude" is an attribute of property. Pet. App. 26a. But § 261 provides that "[*s*]*ubject to the provisions of this title*, patents shall have the attributes of personal property." 35 U.S.C. § 261 (emphasis added). The "subject to" qualification means that a patent's status as personal property cannot be used to modify the discretionary approach to injunctive relief set forth in § 283, a "provision[] of this title." Because Congress has made the

policy choice that the statutory "right to exclude" does not support a special rule for injunctive relief in patent cases, there is no room for the federal courts to decide otherwise.

This is confirmed by a comparison to the Copyright Act. An author also has the "right to exclude" under the Copyright Act. *Fox Film Corp.* v. *Doyal*, 286 U.S. 123, 127 (1932). Nonetheless, as noted above, because, like § 283, 17 U.S.C. § 502(a) uses the word "may," this Court has rejected an automatic injunction rule in copyright cases. *Tasini*, 533 U.S. at 505; see also *Dun* v. *Lumbermen's Credit Ass'n*, 209 U.S. 20, 23-24 (1908) (affirming denial of an injunction in part because of the balance of hardships, and holding "the copyright owner should be remitted to his remedy at law").

Four additional reasons demonstrate why it would be particularly inappropriate in this patent case for the courts to substitute their policy choice for that of Congress.

1. As this Court has held, a patent "is created by the act of Congress; and no rights can be acquired in it unless authorized by statute, and in the manner the statute prescribes." *Gayler* v. *Wilder*, 51 U.S. (10 How.) 477, 494 (1850); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 40 (1923) ("[p]atent property is the creature of statute law and its incidents are equally so"). Accordingly, the remedies protecting patent rights, including the right to exclude, are *only* available on the express terms set by Congress. Under § 283, those statutory terms give district courts traditional discretion to grant or deny injunctions.

2. A patentee's right to exclude is protected by other significant remedies besides potential injunctive relief. Section 284 requires "damages adequate to compensate for the infringement," including a reasonable royalty and interest. 35 U.S.C. § 284 ("the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed

by the court.").[8] Indeed, a patentee may be awarded damages not only for harm incurred in the past, but also for post-judgment "future losses." *Shockley* v. *Arcan, Inc.*, 248 F.3d 1349, 1362 (Fed. Cir. 2001). MercExchange did not seek recovery for such future losses.

Moreover, post-judgment violations of a patentee's right to exclude are further deterred by the threat of treble damages available under 35 U.S.C. § 284 ("[T]he court may increase the damages up to three times the amount found or assessed."). Indeed, here the district court stated that "the court will be more inclined to award enhanced damages for any post-verdict infringement." Pet. App. 59a. This Court has recognized that "[t]he very idea of treble damages reveals an intent to punish past, *and to deter future, unlawful conduct*." *Texas Indus., Inc.* v. *Radcliff Materials, Inc.*, 451 U.S. 630, 639 (1981) (emphasis added); see also *Mitsubishi Motors Corp.* v. *Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 635 (1985) ("The treble-damages provision ... pos[es] a crucial deterrent to potential violators."). Further deterrence of a future violation is also provided by the availability of attorneys' fees under 35 U.S.C. § 285. See *Mathis* v. *Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988) ("Provisions for increased damages under 35 U.S.C. § 284 and attorney fees under 35 U.S.C. § 285 are available as deterrents to blatant, blind, willful infringement of valid patents." (footnote omitted)).

Thus, an injunction is not the sole statutory means by which to protect a patentee's right to exclude. This further undermines the purported justification for a near-automatic injunction rule. In *Romero-Barcelo*, this Court rejected a similar rule in part because "an injunction was not the only means of ensuring compliance." 456 U.S. at 314 (noting statutory rights could also be protected by fines and penalties). Here,

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[8] Thus, Congress has made pre-judgment interest available to patentees who prevail in an infringement suit. *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983).

the Patent Act creates a comprehensive scheme, in which an injunction is but one discretionary remedy. The Federal Circuit had no authority to rewrite or supplement that comprehensive scheme.

3. This Court has held that the Patent Act itself recognizes valid, competing interests that the statute balances against the "right to exclude." "[T]he federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989); *see also Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (federal patent laws reflect a "balance between the interest in motivating innovation and enlightenment by rewarding invention with patent protection on the one hand, and the interest in avoiding monopolies that unnecessarily stifle competition on the other."); *Fla. Prepaid Postsecondary Educ. Expense Bd.* v. *Coll. Sav. Bank*, 527 U.S. 627, 750 (1999) (Stevens, J., dissenting) ("[f]ederal interests are threatened, not only by inadequate protection for patentees, but also when *overprotection* may have an adverse impact on a competitive economy." (emphasis added)).

These concerns are even more applicable today because of the proliferation of patent assertion firms or "non-practicing entities" ("NPEs"). Overall, the number of patent applications has risen dramatically, from 125,931 applications filed in 1985 to 409,532 in 2005. U.S.P.T.O., *Performance & Accountability Report: Fiscal Year 2005*, at 119, *at* http://www.uspto.gov/web/offices/com/annual/. As the district court found, MercExchange is a NPE. Pet. App. 58a. Commentators in a recent report issued by the Federal Trade Commission ("FTC") identified the rise of patent suits by NPEs as a growing problem for the economy. FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 3, 38-39 (2003) ("*FTC Report*"). Specifically,

NPEs "obtain and enforce patents against other firms, but either have no product or do not create or sell a product that is vulnerable to infringement countersuit by the company against which the patent is being enforced." *Id.* at 38. NPEs can "threaten [practicing entities] with patent infringement and an injunction, which, if granted, could inflict substantial losses." *Id.* Such losses include "higher prices to consumers, inefficiently low use of the affected products, and deadweight loss." *Id.* at 40-41. Ultimately, innovation may suffer because some companies will "'refrain from introducing certain products'" or, as here, forgo using certain functionalities for fear of such hold-up strategies to extract higher royalties. *Id.* at 41; *see also* Br. of *Amici* Business Software Alliance, et al., at 5-18; Br. of *Amici* Time Warner, et al., at 8-25.

Even before the rise of NPEs, Congress had balanced the competing interests in 35 U.S.C. § 283 by making injunctive relief discretionary under the four-factor "principles of equity." In striking a different balance with its near-automatic injunction rule, the Federal Circuit committed a fundamental error in statutory construction. As this Court explained in *Rodriguez* v. *United States*, 480 U.S. 522 (1987) (per curiam):

> [N]o legislation pursues its purposes at all costs. Deciding what competing values will or will not be sacrificed to the achievement of a particular objective is the very essence of legislative choice—and it frustrates rather than effectuates legislative intent simplistically to assume that *whatever* furthers the statute's primary objective must be the law. Where, as here, "the language of a provision . . . is sufficiently clear in its context and not at odds with the legislative history, . . . '[there is no occasion] to examine the additional considerations of "policy" . . . that may have influenced the lawmakers in their formulation of the statute.'"

Id. at 525-26 (omissions and second alteration in original). Congress made its "legislative choice" by adopting the discretionary language in section 283. That should end the matter.

4. Even assuming, for the sake of argument, that the statutory "right to exclude" would warrant a near-automatic injunction rule for some patent cases, there is no justification for that rule in this case where, as the district court found, MercExchange "exists merely to license its patented technology to others." Pet. App. 54a. As the Federal Circuit itself has held, "[a]ll or part of the right to exclude may be waived by granting a license, which may be express or implied." *Carborundum Co.* v. *Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995).

b. There is No Near-Automatic Injunction Rule in Personal Property Cases.

The Patent Act states that "patents shall have the attributes of *personal* property," 35 U.S.C. § 261 (emphasis added), *not* real property. A personal property right has never been treated as a demand note for an injunction. The fourfold "principles of equity" have long been applied to disputes concerning personal property rights, and often yield the denial of an injunction. 43A C.J.S. *Injunctions* § 119 (2004) (noting that an injunction will not be granted "to prevent the removal or conversion of personal property where the injury may be fully redressed by an action at law for damages"); 42 Am. Jur. 2d *Injunctions* § 113 (2005) ("Instances of the issuing of injunction against such trespasses [upon personal property] are necessarily very rare, and seem to be confined to cases where the property trespassed upon or taken has some peculiar intrinsic value to the owner that cannot be compensated in money.").

This Court itself has applied the four-factor test to deny injunctive relief in property cases. See *Romero-Barcelo*, 456 U.S. at 312 (injunctions "should issue only where the intervention of a court of equity 'is essential in order effectually to protect property rights against injuries otherwise irremediable'" (quoting *Cavanaugh* v. *Looney*, 248 U.S. 453, 456 (1919))); *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 59-60 (1975) (holding that the district court properly applied the

four-factor test to deny injunctive relief); see also *City of Harrisonville, Mo.* v. *W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933) (Brandeis, J.) (denying injunction in case of "continuous or recurrent" "nuisance" injuring land, where "substantial redress can be afforded by the payment of money," and holding that "an injunction is not a remedy which issues as of course"); *Atchison* v. *Peterson*, 87 U.S. (20 Wall.) 507, 515 (1874) (in affirming denial of an injunction in a dispute concerning water rights, the Court considered the four traditional factors for equitable relief, including "whether an action at law would afford adequate remedy"); see also, *supra*, at 18 (citing copyright cases).[9]

Justice Story in his classic *Commentaries on Equity Jurisprudence* (Fred B. Rothman & Co. 1988) (Bigelow ed., 13th ed. 1886), explained how the traditional equitable factors applied in property cases generally. *Id.* Vol. 2, ¶ 928, at 233-34. Justice Story also noted that "[i]t is upon similar principles, to prevent irreparable mischief or to suppress multiplicity of suits and vexatious litigation that Courts of Equity interfere in cases of patents for inventions, and in cases of copyrights to secure the rights of the inventor or author and his assignees and representatives." *Id.* ¶ 930a, at 236. Story specifically

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[9] *See also Intel Corp.* v. *Hamidi*, 71 P.3d 296, 303 (Cal. 2003) ("to issue an injunction without a showing of likely irreparable injury in an action for trespass to chattels ... would make little sense"); *Mobley* v. *Saponi Corp.*, 212 S.E.2d 287 (Va. 1975) (denying an injunction because hardship to the defendant and public was disproportionate); *Hunter* v. *Carroll*, 15 A. 17, 18 (N.H. 1888) (injunction will not issue when the hardships were greatly disproportionate to the defendant even when defendant encroached upon plaintiff's land); *LeFurgy* v. *Long Cove Club Owners Assoc.*, 443 S.E.2d 577, 578 (S.C. Ct. App. 1994) ("In cases where an injunction is sought to abate an alleged private nuisance, the court must deal with the conflicting interests of the landowners by balancing the benefits of an injunction to the plaintiff against the inconvenience and damage to the defendant, and grant or deny an injunction as seem most consistent with justice and equity under the circumstances of the case.").

noted, for example, that an injunction "will not be granted in cases of gross laches or delay by the party seeking the relief in enforcing his rights; as for example where in case of a *patent* or copyright the patentee has lain by and allowed the violation to go on for a long time without objection or seeking redress." *Id.* ¶ 959a, at 262-63 (emphasis added); see also Henry L. McClintock, *Principles of Equity* § 149, at 398-99 (1948) ("[w]hen equitable relief for the protection of a patent or copyright is sought, the court will apply the ordinary principles of equity in determining the right to relief").

In sum, even if the language of 35 U.S.C. § 283 and § 261 were wrongly ignored, the Federal Circuit's personal property analogy would not support its near-automatic injunction rule.

B. A Determination Under § 283 To Grant Or Deny Injunctive Relief May Be Reviewed Only For Abuse of Discretion.

35 U.S.C. § 283 vests discretion over equitable relief in "the several courts having jurisdiction of cases in this title." This means the district courts. See 28 U.S.C. § 1338(a). A provision like 35 U.S.C. § 283 requires appellate courts to review district court determinations only for an abuse of discretion. See *Pierce* v. *Underwood*, 487 U.S. 552, 558 (1988) (provision vesting "discretion" in district court is an "explicit statutory command" to use an abuse of discretion standard of review); see also *Romero-Barcelo*, 456 U.S. at 320 ("Because Congress, in enacting the FWPCA, has not foreclosed the exercise of equitable discretion, the proper standard for appellate review is whether the District Court abused its discretion ....").

In *United States* v. *W.T. Grant Co.*, this Court affirmed a district court's denial of a permanent injunction, noting that "[t]he chancellor's decision is based on all the circumstances; his discretion is necessarily broad and a strong showing of abuse must be made to reverse it." 345 U.S. 629, 633 (1953). The Court observed that "[w]ere we sitting as a trial court,

[the appellant's] showing might be persuasive. But the [appellant] must demonstrate that there was no reasonable basis for the District Judge's decision." *Id.* at 634.

The Federal Circuit's decision made no pretense of reviewing the denial of an injunction under an abuse of discretion standard. Rather, the Federal Circuit erred by requiring the *district court* to persuade it that an injunction should be denied, effectively turning the abuse of discretion standard on its head. Pet. App. 26a ("the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction").

The Federal Circuit went on to rule that certain aspects of the district court's decision were insufficient when judged under an *incorrect* standard of *de novo* review and its *incorrect* rule requiring an injunction in all but exceptional circumstances. The Federal Circuit's decision was not, and cannot be resurrected as, a ruling that the district court abused its discretion under the correct four-factor test for an injunction. When the abuse of discretion standard and four-factor test are applied, as 35 U.S.C. § 283 requires, the district court's decision had more than a reasonable basis, was amply supported by precedent, and must be affirmed.

1. The District Court Properly Found The Absence Of Irreparable Injury.

With respect to irreparable injury, the district court followed Federal Circuit precedent that presumed irreparable harm, and imposed a burden on eBay to rebut that presumption. Pet. App. 53a; see *Reebok Int'l Ltd.* v. *J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994) (describing presumption as "a procedural device which shifts the ultimate burden of production on the question of irreparable harm onto the alleged infringer.").

At the outset, we note that the Federal Circuit's rebuttable presumption is improper. First, this Court has held that the movants bear the burden to prove irreparable harm. See *Ron-*

deau, 422 U.S. at 61 (holding that the district court was "entirely correct in insisting that [the plaintiff] satisfy the traditional prerequisites of extraordinary equitable relief by establishing irreparable harm"); *Ashwander* v. *Tenn. Valley Auth.*, 297 U.S. 288, 344-45 (1936) (Brandeis, J., concurring) (observing that "[e]ven where property rights of stockholders are alleged to be violated by the management, stockholders seeking an injunction must bear the burden of showing danger of irreparable injury, as do others who seek that equitable relief"). Specifically, a "presumption [of irreparable harm] is contrary to traditional equitable principles." *Amoco*, 480 U.S. at 545. Second, obligating district courts to presume irreparable harm is contrary to the language of 35 U.S.C. § 283, which provides that district courts "may" grant an injunction, not "presumptively should." Third, when Congress intended to create a presumption in Title 35 of the United States Code, it did so expressly. See, *e.g.*, 35 U.S.C. § 282 ("A patent shall be presumed valid."); *id.* § 295 (upon making certain findings "the product shall be presumed to have been so made [by a patented process], and the burden of establishing that the product was not made by the process shall be on the party asserting that it was not so made"). Congress did not do so in § 283.

Despite shifting the burden to eBay, however, the district court properly found that eBay proved an absence of irreparable injury. The district court found that "[s]ubstantial evidence was adduced at trial showing that the plaintiff does not practice its inventions and exists merely to license its patented technology to others." Pet. App. 54a. Moreover, "the plaintiff ha[d] made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement." *Id.* Such evidence that MercExchange was willing to accept money for the use of its patent helped show the lack of irreparable harm. "The key word in this consideration is irreparable. Mere injuries, however substantial, in terms of

money, time and energy ... are not enough." *Sampson* v. *Murray*, 415 U.S. 61, 90 (1974).

Even in prior Federal Circuit cases, licensing has been found to be "incompatible with the emphasis on the right to exclude that is the basis for the presumption [of irreparable harm] in a proper case." *T.J. Smith & Nephew Ltd.* v. *Consol. Med. Equip., Inc.*, 821 F.2d 646, 648 (Fed. Cir. 1987); see also *High Tech Med. Instrumentation* v. *New Image Indus., Inc.*, 49 F.3d 1551, 1556-67 (Fed. Cir. 1995) ("Although a patentee's failure to practice an invention does not necessarily defeat the patentee's claim of irreparable harm, the lack of commercial activity by the patentee is a *significant factor* in the calculus." (emphasis added)).

The Federal Circuit did not take issue with the district court's factual findings. Instead, under its erroneous "right to an injunction" test, it declared that "[i]njunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license." Pet. App. 27a. No one says they are. Under the correct four-factor test and the above-cited precedent, however, the district court reasonably considered MercExchange's pattern of licensing and public statements as substantial proof that, in this case, any injury was purely monetary, and thus not an irreparable harm. That determination was not unreasonable or an abuse of discretion.

The district court also reasonably noted that, although not a dispositive factor, MercExchange's failure to seek a preliminary injunction undercut its assertion that it would suffer irreparable injury absent a permanent injunction. Pet. App. 55a. It was eminently sensible for the court to question why it took MercExchange nearly two years of litigation, until the close of the trial, to seek injunctive relief if the allegedly ongoing infringement by eBay created irreparable harm.

The Federal Circuit erroneously held that delay is pertinent when a plaintiff seeks a "preliminary injunction," but always immaterial when the plaintiff seeks a permanent injunction.

Id. at 27a-28a. *Amoco*, however, rejected a very similar argument that irreparable injury has a different test depending on whether the injunction sought is preliminary or permanent. "We fail to grasp the significance of this distinction. The standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success." *Amoco*, 480 U.S. at 546 n.12; see also 11A Charles Alan Wright, et al., *Federal Practice and Procedure* § 2948, at 129 (2d ed. 1995) ("An injunction under Rule 65(a) is subject to the same equitable principles that govern the grant or denial of a permanent injunction.").[10]

In sum, the district court's finding that irreparable injury was lacking was more than reasonable and supported by ample authority, and thus cannot be an abuse of discretion.

2. The District Court Properly Found That MercExchange Had An Adequate Remedy At Law.

MercExchange's willingness to license its patents, including to eBay itself, and public comments also supported the

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[10] Indeed, in *Carson* v. *American Brands, Inc.*, 450 U.S. 79 (1981), where this Court denied an interlocutory appeal of the district court's denial of a consent decree, in effect a denial of a permanent injunction, because of a lack of irreparable injury, the Court explained that an earlier failure to seek a preliminary injunction indicated that plaintiff would not suffer irreparable harm. *Id.* at 85; *see also Beame* v. *Friends of the Earth*, 434 U.S. 1310, 1313 (1977) (Marshall, Circuit Justice) (in appeal from a district court's post-judgment order requiring compliance with pollution control programs, denying application of stay pending certiorari in part because "[t]he applicants' delay in filing their petition and seeking a stay vitiates much of the force of their allegations of irreparable harm"). Citing *Carson*, the Seventh Circuit has held, in the context of a permanent injunction in a trademark infringement case, that a plaintiff's failure to seek a preliminary injunction "strongly undermines its argument today that a delay in issuing a permanent injunction will cause it to suffer irreparable harm." *Simon Prop. Group, L.P.* v. *mySIMON, Inc.*, 282 F.3d 986, 990 (7th Cir. 2002) (citing *Carson*).

district court's finding that MercExchange would have an adequate remedy at law. Pet. App. 55a-56a. Even when property rights are at issue, an injunction is inappropriate when money damages can adequately compensate for any harm. See *Rondeau*, 422 U.S. at 59-60 (affirming the denial of a permanent injunction and holding that plaintiff shareholders "have an adequate remedy by way of an action for damages, thus negating the basis for equitable relief"); *Youngstown Sheet & Tube Co.* v. *Sawyer*, 343 U.S. 579, 595 (1952) (Frankfurter, J., concurring) ("A plaintiff is not entitled to an injunction if money damages would fairly compensate him for any wrong he may have suffered.").[11] Moreover, here the district court noted that MercExchange was further protected against infringement by the fact that the court would be inclined to assess the legal remedy of "enhanced damages" against eBay were it found to have infringed after the verdict. Pet. App. 59a.

Because the Federal Circuit used the wrong test, under which every patentee effectively has a "right to an injunction," it suggested that an "adequate remedy" had to give the patentee "additional leverage" in negotiating a settlement. *Id.* at 27a. Once again, the Federal Circuit contradicted the traditional four-factor test. Under the proper approach, when "it is recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue." *Nerney* v. *New York, New Haven & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1936); *Foster*, 492 F.2d at 1324.

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[11] Even in prior Federal Circuit cases, there was authority that money damages can be an adequate remedy when a patentee has shown a willingness to license. *See, e.g., High Tech*, 49 F.3d at 1557 ("[T]he evidence shows that [the plaintiff] offered a license to [the defendant], so it is clear that [the plaintiff] is willing to forgo its patent rights for compensation. That evidence suggests that any injury suffered by [plaintiff] would be compensable in damages assessed as part of the final judgment in the case.").

Moreover, the text of the Patent Act itself negates any suggestion that patents are appropriately used for settlement leverage. Section 284 authorizes patentees to recover a "*reasonable* royalty for the *use made of the invention* by the infringer." 35 U.S.C. § 284 (emphasis added). The value of the "use made of the invention" does not change merely because the patentee has leverage from an injunction. Indeed, "reasonable royalty" means what "a willing licensor and willing licensee might have agreed to during a hypothetical negotiation at the time infringement began." *E.g.*, *Catalina Lighting, Inc.* v. *Lamps Plus, Inc.*, 295 F.3d 1277, 1289 (Fed. Cir. 2002).

The Patent Act's remedies are not intended to enable the patentee to obtain a windfall gain. In particular, as this Court has recognized, the Patent Act was amended in 1946 to remove the prior ability of a patentee to obtain a defendant's profits in excess of the patentee's injury. *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983) ("A patent owner's ability to recover the infringer's profits reflected the notion that he should be able to force the infringer to disgorge the fruits of the infringement even if it caused him no injury. In 1946 Congress excluded consideration of the infringer's gain by eliminating the recovery of his profits....") (citing *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476, 505 (1964)). Permitting a patentee to use an injunction for leverage would impermissibly open a side door for what Congress has provided cannot come in through the front door.

It would be particularly inappropriate in this case to allow MercExchange to leverage an improper injunction into a windfall gain. The district court found that eBay's "success did not arise from the use of anything contained in the plaintiff's patents." Pet. App. 58a.

* * * *

Because the district court did not abuse its discretion in finding an absence of irreparable injury and the presence of an adequate remedy at law, appellate affirmance is manda-

tory. Under these circumstances, there could be no abuse of discretion in denying an injunction regardless of the other two factors. See *Rondeau*, 422 U.S. at 64-65 ("the fact that respondent is pursuing a cause of action which has been generally recognized to serve the public interest provides no basis for concluding that it is relieved of showing irreparable harm and other usual prerequisites for injunctive relief"); *Romero-Barcelo*, 456 U.S. at 312 ("The Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies."); *Lyons*, 461 U.S. at 111 ("The equitable remedy is unavailable absent a showing of irreparable injury ...."); *O'Shea* v. *Littleton*, 414 U.S. 488, 502 (1974) ("Respondents have failed, moreover, to establish the basic requisites of the issuance of equitable relief in these circumstances—the likelihood of substantial and immediate irreparable injury, and the inadequacy of remedies at law.").

Thus, any error concerning either the balance of hardships or public interest factor could only be harmless.[12] Nevertheless, here, the district court acted reasonably in its treatment of these two factors.

3. The District Court Properly Found That The Balance Of The Hardships Weighed Against An Injunction.

In considering this factor, the district court found that because eBay was seeking to work around the MercExchange

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[12] If an error affecting any factor was not harmless, the only proper appellate remedy would be to remand for the district court (*not* the Federal Circuit) to reweigh the four factors. *See Mitchell* v. *Lublin, McGaughy & Assocs.*, 358 U.S. 207, 215 (1959) (when legal error required remand "it will still be in within the discretion of the district court whether or not to issue an injunction"); *cf. Chrysler Motors Corp.* v. *Auto Body Panels of Ohio, Inc.*, 908 F.2d 951, 953 (Fed. Cir. 1990) ("If the injunction is denied, the absence of an adequate showing with regard to *any one factor* may be sufficient, given the weight or lack of it assigned the other factors, to justify the denial." (emphasis added)).

patents, the grant of an injunction would likely subject both parties to litigating numerous contempt proceedings at "extraordinary costs to [both] parties." Pet. App. 59a ("the court understands that these reasons alone are not sufficient to deny an injunction to a patent holder"). Moreover, the district court bolstered its determination by ruling that "the court will be more inclined to award enhanced damages for any post-verdict infringement." *Id.* In light of these factors, the district court reasonably found that the hardships weighed "slightly" in favor of denying an injunction. *Id.* at 58a.

Regrettably, MercExchange had already shown a willingness to abuse an injunction issued by the court. The court had enjoined ReturnBuy in February of 2003. Subsequently, MercExchange moved for a contempt finding against eBay for allegedly facilitating the violation of that injunction. The District Court, however, rejected that motion because MercExchange had failed to show either infringement by ReturnBuy, or any aiding and abetting by eBay. Pet. App. 62a.

The Federal Circuit agreed with the district court that continued trial court litigation in this case would follow even if an injunction were granted against eBay. *Id.* at 27a ("A continuing dispute of that sort is not unusual in a patent case ...."). The Federal Circuit, however, incorrectly held that this was not a permissible consideration. *Id.*

This Court has indicated that an injunction only prevents hardship to the plaintiff from multiple litigation if the injunction would render multiple litigation "unnecessary." See *Pub. Serv. Comm'n* v. *Brashear Freight Lines, Inc.*, 312 U.S. 621, 630 (1941) ("the action of equity ... has traditionally exerted its power ... to prevent the harmful consequences of an *unnecessary* multiplicity of causes of action" (emphasis added)). As the district court and the Federal Circuit both noted, however, multiple trial court litigation was likely to be "necessary" in this case, with or without an injunction. Accordingly, the district court acted reasonably and within its discre-

tion in finding that an injunction would not prevent hardship to MercExchange by avoiding multiple litigation.

In contrast, the threat of contempt proceedings from a possible subsequent violation of an injunction represented a grave hardship to eBay. Unlike a subsequent infringement action, proceedings to enforce an injunction permit a patentee to invoke the "severe remedy" of contempt. *Cal. Artificial Stone Paving Co.* v. *Molitor*, 113 U.S. 609, 618 (1885). For example, "[c]ontempt proceedings are generally summary in nature and may be decided by the court on affidavits and exhibits without the formalities of a full trial." *KSM Fastening Sys., Inc.* v. *H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985); see also *Lawson* v. *Murray*, 515 U.S. 1110, 1114 (1995) (Scalia, J., concurring) (noting that a remedial injunction is "enforceable through civil contempt, a summary process without the constitutional protection of a jury trial; and the only defense available to the enjoined party is factual compliance with the injunction"). The defendant "bears the risk that the enjoining court may find changes to be too insubstantial to avoid contempt." *KSM*, 776 F.2d at 1524.

Moreover, "[i]f violation is found, the contemnor may be punished by fine (payable to the patent owner) and imprisonment, even in civil contempt." *Id.* at 1524. Fines or imprisonment can extend to a company's officers. See, *e.g.*, *Penfield Co. of Cal.* v. *SEC*, 330 U.S. 585, 592 (1947). Moreover, government entities, other businesses, or consumers may decline to do business with a company that has been publicly subjected to criminal sanctions.

For most companies, these risks can be overwhelming. The mere possibility of a summary contempt proceeding could compel a rational defendant to settle, and effectively pretermit even a meritorious appeal. Moreover, because patentees can make any settlement contingent on the defendant forgoing PTO's reexamination proceedings, an avenue otherwise available to establish the invalidity of patents would be closed. Because of these risks, and to avoid the extortion of *in ter-*

rorem royalties through an injunction-induced settlement, the district court did not abuse its discretion in finding that the balance of hardships favored the denial of an injunction. Cf. *City of Harrisonville*, 289 U.S. at 337-38 (denying an injunction when "substantial redress can be afforded by the payment of money," but its issuance "would subject the defendant to grossly disproportionate hardship").

Finally, the uncertainty about whether additional conduct would constitute patent infringement completely undermines the argument of Respondent and its amici that injunctions should issue as of matter of course, like in real property cases. *See*, *supra*, at 21. There is a much greater need for equitable discretion in patent cases. When there is a real property injunction, the boundaries of the property are rarely disputable. In contrast, a patent injunction is often vague because the scope of patent claims typically involve technical terms and complex subjects. The resulting uncertainty is compounded because the Federal Circuit is very lax concerning properly instructing lay jurors as to the construction of patent claims. *See, e.g.*, *Sulzer Textil A.G.* v. *Picanol N.V.*, 358 F.3d 1356, 1367 (Fed. Cir. 2004) (holding that district court's failure to provide any claim construction instructions was harmless error); Zegger, *The Paper Side of Jury Trials*, PLI Patent Litigation 2004, 749, 761-62 (discussing the Federal Circuit's approval of the district courts' "abdication of *Markman* responsibilities"). Thus, the extent of the infringement found bound by juries is often highly uncertain. Accordingly, the prospect of further litigation about whether a patent injunction has been violated is far more likely in a patent case than in a real property case.

This case illustrates this unfortunate pattern. MercExchange's patent claims were vague. MercExchange was allowed to present a theory of infringement that could not be more vague and indeterminate—that is, that eBay's person-to-person system was a "trusted network." See, *supra*, at 6-8. The testimony of MercExchange's own expert establishes that

the boundaries of what constitutes a "trusted network" cannot remotely be compared to the metes and bounds of real property. As he testified: "[T]rust is not an absolute. It is a goal." [Tr. 1681]. As the district court found, if an injunction were granted based on so amorphous a theory of infringement, litigation "would continue," resulting in "contempt hearing after contempt hearing." Pet App. 58a-59a. These circumstances amply supported the district court's finding that injunctive relief would not spare anyone from further litigation.

4. The District Court Properly Found That The Public Interest Did Not Favor Granting An Injunction.

The district court concluded that the public interest factor neither counseled for nor against granting an injunction. Pet. App. 58a. That finding was more than reasonable.

This Court has held that even when (unlike here) the plaintiff would suffer an irreparable injury, a court of equity has the discretion to decline to order an injunction when there would be adverse consequences to the public interest. *Romero-Barcelo*, 456 U.S. at 305. Even the Federal Circuit recognizes a public interest exception, albeit a very narrow one. Pet. App. 26a.

The district court offered two proper reasons for why the public interest did not support an injunction in this case. First, "the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." Pet. App. 57a. The Federal Circuit did not and could not dispute this reason, given this Court's precedents. See, *supra*, at 24-25.

The other reason noted by the district court related to the possibility that the regulatory landscape might change, and thus there might not be a valid patent to vindicate. In particular, the district court noted that Congressional representatives and the PTO had expressed concern about the invalidity of some business method patents and the potential harm to inno-

vation from them. Pet. App. 57a. This observation proved, in its general direction, to be prescient. Here, subsequent to the district court's final judgment, the PTO reexamination process has rejected all of the claims in the '265 patent for which the Federal Circuit ordered an injunction. See, *supra*, at 14.[13]

Generally, when reexamination occurs, one recent article states that nearly 74% of the time the PTO finds the patent invalid or restricts its claims. Anne Marie Squeo, *BlackBerry Gambles Patent Office Will Be On Its Side In Court*, Wall St. J., Jan. 17, 2006, at B1. This rate is unsurprising given that the overworked PTO can spend a mere 18 hours on average to review a patent application before initial issuance. Gideon Parchomovsky, *Patent Portfolios*, 154 U. Pa. L. Rev. 1, 61 (2005); *see also* Cecil D. Quillen, Jr., *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Off.*, 11 Fed. Cir. B.J. 1, 3 (2001) (estimating rate of patent approvals by the PTO to be 97%).

Despite this, the Federal Circuit held that any concern regarding patent invalidity "is not the type of important public need that justifies the unusual step of denying injunctive relief." Pet. App. 26a. Once again, this approach contradicted the four-factor test and the abuse of discretion standard of review. Under that test and standard, the district court may consider possible regulatory action that might render the defendant's conduct permissible. See *Romero-Barcelo*, 456 U.S. at 320 (district court's "equitable discretion" allowed it

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[13] The Federal Circuit has itself noted that pending PTO reexamination proceedings can support the imposition of a stay of an injunction. *See Slip Track Sys., Inc.* v. *Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed. Cir. 1998) ("under some circumstances it is entirely appropriate for a district court to stay an action in favor of a copending proceeding in the PTO."); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 27 U.S.P.Q.2d 1959, 1960 (Fed. Cir. 1993) (per curiam) (unpublished) (requiring a stay of a permanent injunction and noting that if the final PTO decision as to unpatentability is upheld, "the injunction would thereby immediately become inoperative" and the patent would be considered "void *ab initio*").

to consider, as a factor in denying an injunction against violations of the Federal Water Pollution Control Act, the possibility of a subsequent regulatory permit).

In sum, under 35 U.S.C. § 283, the district court's denial of an injunction must be affirmed because it cannot be considered an abuse of the discretion vested in the district courts by that statute.

II. *CONTINENTAL BAG* DOES NOT PRECLUDE TRADITIONAL EQUITABLE DISCRETION.

This Court directed the parties to address whether *Continental Bag* should be reconsidered concerning "when it is appropriate to grant an injunction against a patent infringer." Questions related to *stare decisis* require "distinguish[ing] an opinion's holding from its dicta." *United States Nat'l Bank* v. *Indep. Ins. Agents of Amer., Inc.*, 508 U.S. 439, 463 n.11 (1993). *Dicta*, the portions of an opinion "not essential" to the disposition of a case, see *Cent. Green Co.* v. *United States*, 531 U.S. 425, 431 (2001), do not bind the courts in subsequent cases. See *Alexander* v. *Sandoval*, 532 U.S. 275, 282 (2001) (courts are "bound by holdings, not language"); *Kokkonen* v. *Guardian Life Ins. Co. of Am.*, 511 U.S. 375, 379 (1994) ("[i]t is to the holdings of our cases, rather than their dicta, that we must attend").

First, we demonstrate that *Continental Bag*'s holding has no implications for this case. Second, we demonstrate that if this Court concludes that it must overrule *Continental Bag*'s holding in order to enforce the Patent Act's plain language, then it should do so.

A. This Court Need Not Overrule *Continental Bag* To Reverse The Federal Circuit.

1. *Continental Bag* involved a trial court's grant of an injunction. The court of appeals affirmed. As *Continental Bag* noted, the "contention of the petitioner is that a court of equity *has no jurisdiction* to restrain the 'infringement of letters

patent the invention covered by which has long and always and unreasonably been held in nonuse . . . instead of being made beneficial to the art to which it belongs.'" 210 U.S. at 422 (emphasis added) (omission in original). The Court stated that the question presented was "*not of the construction of the law simply*, but of the conduct of the patentee *as contravening the supposed public policy of the law*." *Id.* (emphasis added). Continental Bag did not contend that "nonuse merely of the patent takes jurisdiction from equity, but *an unreasonable nonuse*." *Id.* It did not otherwise challenge the propriety of the injunction. *Id.* at 422.

Continental Bag's holding is merely that the trial court had jurisdiction to issue an injunction despite an unreasonable nonuse of the patent. The Court explained that the statute's provision of "an exclusive right to inventors to make, use, and vend their inventions," *id.* at 423, applied even "[i]f he will neither use his device nor permit others to use it." *Id.* at 425 (quoting *E. Bement & Sons* v. *Nat'l Harrow Co.*, 186 U.S. 70, 90 (1902) (internal quotations and citations omitted)).[14]

Continental Bag did not (and could not) strip the district courts of their equitable discretion. Rather, the Court stated:

> Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, *we do not decide*.

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[14] *Continental Bag*'s narrow holding has been criticized. In *Special Equipment Co.* v. *Coe*, 324 U.S. 370 (1945), Judges Douglas, Black and Murphy dissented, saying that it was "time to be rid" of *Continental Bag*'s rule that a patent holder is "'neither bound to use his discovery himself, nor permit others to use it.'" *Id.* at 381. The dissenters opined that "[i]t is a mistake . . . to conceive of a patent as but another form of private property," and that the Court's rule had resulted in the "suppression of patents." *Id.* at 382. Thus, the dissenters would have withheld the aid of equity "from a patentee who has employed or plans to employ the patent not to exploit the invention but to suppress it in order to protect another patent or otherwise." *Id.* at 384.

210 U.S. at 430. *Continental Bag* thus left open whether injunctive relief may be denied in circumstances different from those presented in that case, such as here, where (a) the patentee is willing to license and has said repeatedly that all it seeks is money, (b) there is a possibility that the infringer can develop a work-around, and (c) additional litigation will occur whether an injunction issues or not. See *supra* at 30-42. *Continental Bag* thus does not support, much less mandate, the Federal Circuit's near-automatic injunction rule.

2. In overreading *Continental Bag* to hold that injunctions are nearly automatic in patent infringement cases, MercExchange has cited the following non-binding *dicta*:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

210 U.S. at 430. This overreading is wrong for three reasons. First, the fact that a patent holder has a right to exclude does not answer the question whether an injunction is always necessary to protect exclusivity, and is otherwise proper. For example, it is not necessary here because, as the district court found, MercExchange "exists merely to license its patented technology to others." Pet. App. 54a. *Continental Bag* does not hold that patent holders who do *not* seek to exclude others from using their invention are inexorably entitled to permanent injunctions.

Second, the Court in *Continental Bag* was not even asked to address the statutory language, and it did not do so. *Cent. Va. Cmty. Coll.* v. *Katz*, —S. Ct—, 2006 WL 151985 (U.S. Jan. 23, 2006) ("we are not bound to follow our dicta in a prior case in which the point now at issue was not fully debated"). In the version of the patent statute in effect when *Continental Bag* was decided, the controlling statutory lan-

guage provided district courts with discretion regarding injunctive relief. See Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481 (providing that courts "shall have authority to grant injunctions according to the course and principles of courts of equity"). It is, at the very least, extremely unlikely that the Court would have interpreted the Patent Act to establish a near-automatic general rule *mandating* injunctive relief without addressing the *discretionary* language of the statute itself.

Finally, the cited passage from *Continental Bag* is nonbinding *dicta*. Continental was not raising an issue concerning how the "right to exclude" should affect the standard for injunctive relief generally. Instead, Continental made only the specific challenge that long-term, unreasonable patent nonuse deprived the equity court of jurisdiction. *Continental Bag's* holding goes no further than rejection of this challenge. *Continental Bag* may establish that every patentee may seek an injunction, but it does not hold that the courts will issue an injunction on a nearly automatic basis.

In sum, *Continental Bag* does not justify the Federal Circuit's decision. Thus, reversal of the Federal Circuit does not require that the holding of *Continental Bag* be overruled.

B. Assuming *Continental Bag* Precludes Equitable Discretion, Then It Should Be Overruled.

Stare decisis serves numerous important interests, most notably the "evenhanded, predictable, and consistent development of legal principles," "reliance on judicial decisions," and "the actual and perceived integrity of the judicial process." *Khan*, 522 U.S. at 20. It is, however, "'a principle of policy' rather than 'an inexorable command.'" *Hahn* v. *United States*, 524 U.S. 236, 251 (1998) (quoting *Payne* v. *Tenn.*, 501 U.S. 808, 828 (1991)). There are competing interests in "recognizing and adapting to changed circumstances and the

lessons of accumulated experience." *Khan*, 522 U.S. at 10.[15] Assuming for the sake of argument, that the holding of *Continental Bag* required a near-automatic injunction rule, then *Continental Bag* should be overruled for five reasons.

1. The near-automatic injunction rule alleged to emerge from *Continental Bag* cannot be reconciled with the plainly discretionary language of 35 U.S.C. § 283. See *supra*, at 18.

2. After *Continental Bag*, this Court has repeatedly held that a statute must contain an "unequivocal statement" before it will be read to limit equitable discretion under the traditional four-factor test. *E.g.*, *Hecht*, 321 U.S. at 329, see *supra*, at 19-20 (citing cases). If *Continental Bag* were read otherwise, it should be overruled as "inconsistent with the prevailing uniform construction of other federal statutes." *Rodriguez de Quijas* v. *Shearson/American Express, Inc.*, 490 U.S. 477, 484 (1989).[16]

3. The reliance and integrity interests protected by the *stare decisis* doctrine are not implicated by the overruling of the near-automatic injunction rule alleged to emerge from *Continental Bag*. For 76 years after *Continental Bag* was decided, lower courts did not read that decision to impose a mechanical injunction rule. The courts of appeals, including for many years the Federal Circuit in its initial years, applied the traditional test for injunctive relief in patent-infringement

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[15] This brief addresses only the standard for *stare decisis* in a non-constitutional case. No issue is raised in this case that has any application to *stare decisis* in a constitutional case.

[16] *See also Hubbard* v. *United States*, 514 U.S. 695, 713 (1995) (plurality opinion by Stevens, J., joined by Ginsburg, Breyer, JJ.) (overruling because of "'intervening development of the law'") (quoting *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 173 (1989)); *Dir., Off. of Workers' Comp. Progs.* v. *Greenwich Collieries*, 512 U.S. 267, 278 (1994) (overruling because "our precedents are in tension"); *Exxon Corp.* v. *Cent. Gulf Lines, Inc.*, 500 U.S. 603, 611-12 (1991) (overruling because, in part, prior decision was "incompatible with current principles").

cases. For example, the Second Circuit in *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F.2d 734 (2d Cir. 1934), denied a patent holder's request for an injunction against use of his invention, stating:

> Injunctions are granted only on equitable grounds. Where there is a plain and adequate remedy at law, as where damages in money will afford complete relief, there is no basis for the intervention of equity in patent litigation. Even where there is equitable jurisdiction an injunction will not be granted in a patent suit as a matter of course. [17]

Id. at 735 (citation omitted). This 76-year record weakens the argument for *stare decisis*. See *Hahn*, 524 U.S. at 252-53 (discussing factor of "consistency with which [prior decision] has been applied in practice").

4. The nature of 35 U.S.C. § 283 diminishes the relevance of *stare decisis* and enhances the importance of the "lessons of accumulated experience" in this context. *Khan*, 522 U.S. at 20. Section 283 instructs the courts to follow the "principles of equity." 35 U.S.C. § 283. Equitable principles adapt to changed circumstances and accumulated experience. See *Union Pac. Ry.* v. *Chicago Rock Island & Pac. Ry.*, 163 U.S. 564, 601 (1896) (equity evolves "in order to meet the re-

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[17] *See also, e.g., Foster*, 492 F.2d at 1324; *Vitamin Tech., Inc.* v. *Wisc. Alumni Res. Found.*, 146 F.2d 941, 956 (9th Cir. 1945); *City of Milwaukee* v. *Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934); *Smith Int'l, Inc.* v. *Hughes Tool Co.*, 718 F.2d 1573, 1577-79 (Fed. Cir. 1983) (citing *Continental Bag* and expressly instructing district courts to employ traditional equitable analysis before issuing an injunction); *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865-66 (Fed. Cir. 1984) ("[I]f Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language .... The district judge, before getting into the issue of equitable relief, must determine if he can deal with the case by adequate money damages. If he can, the predicate for equitable relief of a harsh, or even a mild, character is gone.").

quirements of every case, and to satisfy the needs of a progressive social condition") (internal quotations omitted).

Adherence to the mechanical injunction rule allegedly mandated by *Continental Bag* would be particularly inappropriate given the adaptable nature of equitable principles. By using the term "principles of equity" in 35 U.S.C. § 283, Congress intended the courts to have the flexibility to reconsider the application of those principles to patent cases based on changing economic contexts. Cf. *Trammel* v. *United States*, 445 U.S. 40, 47 (1980) (unanimously overruling 22-year old precedent on privilege, noting that Congress had given courts "flexibility" and thus that "Congress manifested an affirmative intention not to freeze the law of privilege").

The relevant economic contexts have changed dramatically since *Continental Bag* was decided. As goods and services in our economy have become increasingly complex and technology has advanced, a patent holder's ability to leverage and abuse an automatic entitlement to an injunction has increased. A patent holder may be able to obtain an injunction against the use of a minor element of a complex product. See Br. of *Amici* Time Warner, et al., at 8-12. Such a patent may be of small value in and of itself, *e.g.*, if there are available non-infringing alternatives or if technology provides a work-around. Yet, if that element has been incorporated into a complex manufacturing process, it may be extremely costly to substitute a non-infringing component (by necessitating re-tooling, a period of shutdown and loss of customers, etc.). This harms not only productive companies, but also their innocent employees and consumers, and even vital parts of the economy, such as the capital markets and the banking system. See Br. of *Amici* Sec. Indus. Assoc, et al, at 9-15. The near-automatic injunction rule allows a patent holder to threaten to impose these massive substitution costs or to shut down a business, and thus to extort from the infringer a windfall settlement far in excess of any reasonable licensing fee.

The potential for harm to the economy resulting from patent injunctions has been multiplied by the new phenomena of NPEs, professional patent litigators, and the resulting increase in patent litigation. See Wendy H. Schacht & John R. Thomas, *Congressional Research Report: Patent Reform: Innovation Issues* 7, 9 (2005) ("*Patent Reform*"). These entities neither develop nor license patents, but rather seek out companies that have developed valuable products in order to sue them and extort settlements from them. See *FTC Report*, ch. 3, 38-39.

This situation is worsened by the forum shopping available under the virtually nationwide venue in patent cases involving products used broadly. 28 U.S.C. § 1400(b); see *VE Holding Corp.* v. *Johnson Gas Appliance Co.*, 917 F.2d 1574, 1583 (Fed. Cir. 1990). See also Kimberly A. Moore, *Forum Shopping Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 891 (2001) (large-scale empirical analysis of patent cases concluding that "despite the creation of the Federal Circuit, choice of forum continues to play a critical role in the outcome of patent litigation" and that patent cases are "consolidated in a few select jurisdictions"). For example, every repeat patent litigant knows of the town of Marshall, Texas, which has a population of 25,000. "[P]laintiffs are flocking to Marshall: The number of patent cases filed there jumped from 58 in 2003 to 110 in 2004, with another 115 filed this year through September." Alan Cohen, *From PI to IP*, Corp. Couns., Jan. 2006, at 87; *see also* Tresa Baldas, *IP Hotbed-For Now*, Nat'l L.J., Dec. 20, 2004, at 26. In effect, the combination of forum shopping and the Federal Circuit's near-automatic injunction rule once a jury finds infringement, has created a system where *juries* are mandating injunctions. That system cannot be squared with § 283, which places equitable discretion *in the district courts*.

Moreover, the fast pace of technological and scientific advances in today's economy increases the possibility that numerous companies may be able to work around patented in-

ventions by developing their own innovations. The risks from the issuance of an injunction, however, distort and suppress companies' incentives to innovate by such workarounds. See *supra* at 25, 48. It often will be safer to use an existing invention and pay the licensing fees than to develop an alternative and litigate about its validity. This outcome contravenes the central goal of patent law to "foster and reward ... invention to stimulate further innovation." *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

5. Finally, in 1980, Congress gave third parties recourse to the PTO to seek reexamination of the validity of patents under specified circumstances. See 35 U.S.C. §§ 302 et seq.; *id.* at §§ 315 et seq. These administrative procedures allow the participation of third parties, and raise the possibility that a patent will be deemed invalid or restricted some years after its initial approval by the PTO. Indeed, in this case, the patent claims for which the Federal Circuit ordered an injunction currently stand rejected in the PTO reexamination process. See *supra*, at 13-14. When an injunction issues as the result of patent-infringement litigation, it halts the use of an invention, often disrupting or even terminating a business, or forcing an *in terrorem* settlement, even though the patent might, upon reexamination, be invalidated or restricted. The Federal Circuit's near-automatic injunction rule substantially increases the likelihood that such irreparable harm will be caused mistakenly. In contrast, when the traditional, discretionary, four-factor equitable inquiry is conducted, the possibility of PTO reexamination proceedings can be (and should be) considered. See *supra*, at 40-41.

In sum, assuming (for the sake of argument) that *Continental Bag* establishes a near-automatic injunction rule, that decision should be overruled.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

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January 26, 2006

STATUTORY APPENDIX

35 U.S.C. § 154. Contents and term of patent; provisional rights

(a) In general.—

(1) Contents.—Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

* * * *

35 U.S.C. § 261. Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

* * * *

35 U.S.C. § 284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

35 U.S.C. § 285. Attorney fees

The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(41)

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IN THE

Supreme Court of the United States

EBAY, INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENT

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QUESTIONS PRESENTED

1. Whether the court of appeals erred in applying a supposedly "per se" or "automatic" rule requiring issuance of a permanent injunction upon a final adjudication that a valid patent has been infringed.

2. Whether this Court should reconsider its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), holding that a patentee whose patent is infringed is entitled to a permanent injunction even if the patentee does not use the invention.

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STATEMENT

A jury and two lower courts concluded that petitioners eBay and Half.com willfully infringed respondent MercExchange's patent, U.S. Patent No. 5,845,265 ("the '265 patent") and that the patent is valid. Petitioners did not seek certiorari on any issue of validity or infringement, and so no such question is properly before this Court. Nonetheless, petitioners extensively argue, or at least strongly imply, based on a decidedly one-sided recitation of the facts, that the jury and lower courts reached mistaken conclusions on those issues. *See* Br. 5-9. Accordingly, it is necessary to provide the Court with a statement of the facts that is consistent with the jury's verdict and lower courts' conclusions.[1]

1. Thomas Woolston, an electrical engineer and patent attorney, and the founder of MercExchange, L.L.C. (JA 592-593), filed his first patent application involving online marketing technology in April 1995, several months before eBay came into existence. JA 386, 400, 489-490. The family of patents that issued from this parent application includes the only patent of concern here, the '265 patent. JA 386, 400.[2]

The '265 patent describes an "electronic market" for the sale of goods. JA 386-445, 706-707. In such a market, sellers

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[1] Petitioners also devote extensive space (Br. 28-41) to arguing that, had the Federal Circuit applied the correct legal standard, it would have affirmed the district court's denial of a permanent injunction. But petitioners did not seek certiorari on that question either; they sought review only on whether the Federal Circuit erred as a matter of law in applying a supposedly "automatic" or "per se" rule requiring issuance of a permanent injunction upon a finding of infringement. Pet. 3, 13. Even on that question, petitioners have shifted position. No longer arguing that the Federal Circuit applies an "automatic" rule, they now describe the Federal Circuit's rule as "*near*-automatic." Br. 18 (emphasis added).

[2] The '265 application was a continuation-in-part of a parent application filed on April 26, 1995. JA 386, 400. The '265 patent application was filed on November 7, 1995, thus the relevant "priority date" (or date of invention) of the '265 patent is no later than November 7, 1995. JA 386, 400; Tr. 319. U.S. Patent Nos. 6,085,176 ("the '176 patent") and 6,202,051 ("the '051 patent"), other patents in the '265 patent's family that were involved in the litigation below, are not at issue here.

can display their wares by posting pictures, descriptions, and prices of goods on a computer network, such as the Internet. A prospective buyer can electronically browse the goods on sale by connecting to the network. After selecting an item, the buyer can complete the purchase electronically, with the "electronic market" mediating the transaction, including payment, on the buyer's behalf. The seller is then notified that the buyer has paid for the item and that the transaction is final. A central authority within the market can police the obligations and performance of sellers and buyers over time, thereby promoting trust among participants. JA 400-402, 406-407.

The '265 patent's electronic market was a novel improvement over previous approaches to selling used goods or collectibles, such as specialty shops, electronic bulletin boards, and television shopping channels. JA 400. The electronic market makes an extensive and geographically dispersed inventory of goods easily accessible to a broad purchasing public. And because the entire transaction is mediated electronically, buyers and sellers can transfer ownership quickly and confidently.

The innovations claimed by the '265 patent are specifically directed to two problems: providing means to identify and track goods offered and sold in an electronic market, and providing means to mediate the transfer of funds and ownership associated with an electronic sale. The first problem—that of identification and tracking—was solved by using a combination of devices, first, to produce for each item a digital image, a textual description, and a "data record" with a tracking number; and, then, to make the item's image and description available over a network. The second problem—that of mediating payment and obligating the seller to perform—was solved, in part, by using a "transaction processor" to receive purchase information (*e.g.*, information specifying the item purchased, the purchaser's identity, and the credit account to be debited), to verify that information, to notify the seller of payment, and to modify the "data record" to reflect the sale. JA 386, 400-412; *see also* Pet. App. 4a-5a.

2. Woolston's goal was to build an operating business that would practice his inventions. He founded MercExchange and assigned his patent rights to it. JA 70, 1028. He developed a business plan, sought capital to commercialize his patents, and hired computer programmers to write software to put his inventions into practice. JA 577-578, 597, 624-626, 630-632, 730-732. He also sought to exploit his inventions through licensing. JA 513-541, 598-610, 636-640.

By the late 1990s, eBay, like MercExchange, was looking for ways to offer goods for sale with the entire sales transaction, including the mediation of payment, performed electronically. eBay knew of MercExchange's '265 patent and its technique for conducting electronic sales. Indeed, from October 1998 through February 2002, eBay repeatedly acknowledged the '265 patent's significance by filing 24 patent applications citing the '265 patent as prior art. JA 450-453. Furthermore, the Patent and Trademark Office rejected at least one patent application of Half.com (a wholly-owned affiliate of eBay) as completely anticipated by MercExchange's '265 patent. JA 951.

eBay further acknowledged the '265 patent's significance by actively seeking to purchase MercExchange's technology. In June 2000, eBay approached MercExchange to discuss eBay's interest in buying MercExchange's patent portfolio. JA 446-447, 606-609, 676-677. MercExchange was "very excited" at the prospect of entering into a relationship with eBay (JA 607) because MercExchange was "contemplating relationships that capitalize MercExchange into an operating company" (JA 677). eBay made clear, however, that it was interested only in buying the patents (JA 607), rather than entering into any more extended relationship.[3]

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[3] Contrary to petitioners' suggestion (Br. 5), MercExchange did not meet with eBay "under [a] guise." MercExchange wanted to develop a relationship with eBay in order to build MercExchange's fledgling business. JA 607. But eBay "didn't want any relationship" with MercExchange; eBay "just wanted to buy the patent." *Id.*

When negotiations for the sale of MercExchange's patents broke down, eBay began using MercExchange's technology without authorization. By the fall of 2000—only months after eBay had unsuccessfully tried to buy MercExchange's technology—eBay had incorporated into its website a fixed-price sales capability using the "electronic market" system of MercExchange's '265 patent for the purchase and sale of goods and the transfer of funds in an electronic marketplace. JA 87-89, 327-329, 945.

At the same time that eBay began using MercExchange's technology, it was becoming clear that lack of capital would prevent MercExchange from directly commercializing its inventions. JA 637. With no choice but to end its efforts at direct commercialization, MercExchange shifted its remaining resources to building a licensing program. JA 732. eBay's willful infringement of MercExchange's patents made licensing difficult, however, because potential licensees recognized that the '265 patent had little value if MercExchange could not stop others from infringing. JA 732-733, 736. MercExchange's licensee AutoTrader made its payment of royalties contingent on MercExchange's successfully bringing a halt to eBay's infringement. JA 493-512.

3. Frustrated in its licensing efforts by eBay's willful infringement, MercExchange filed suit in September 2001, alleging that eBay, Half.com, and ReturnBuy (a seller of goods on eBay's online marketplace), were infringing MercExchange's patents. JA 68-86. In its initial and first amended complaints, MercExchange sought permanent injunctions against the infringement of its patents. JA 84; C.A.J.A. A315.

Before trial, the district court held a hearing to determine the scope of MercExchange's patents. *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370 (1996). After that hearing, the court interpreted the "market for goods" or "market apparatus" required by the claims of the '265 patent to comprise a "trusted network" or "trusted system" where

"items or goods may be bought and sold." C.A.J.A. A81; A90-91.[4] Contrary to petitioners' arguments, the district court did not construe the claims of the '265 patent to require that, in completing a sale, title be transferred pursuant to any particular steps or legal formalities. *See* Pet. App. 9a. Rather, the court concluded that ownership is transferred when payment for an item clears, the data record for the item is modified to reflect payment, and the seller is notified. C.A.J.A. A95-97; Pet. App. 7a.

The court presided over a five-week jury trial to determine whether MercExchange's patents were valid and infringed.[5] MercExchange presented evidence that petitioners practiced each and every element of the '265 patent's asserted claims. Pet. App. 32a. In particular, MercExchange presented "a great amount of evidence" to prove that petitioners' used a "trusted network," including evidence that petitioners used various "trust-enhancements" in their system, such as "escrow services, conflict resolution services, insurance, payment intermediaries, authentication systems, feedback forum[s], and the policing of the system." *Id.* at 33a, 39a. MercExchange also presented evidence that petitioners' system transfers ownership in the manner described by the '265 patent—*i.e.*, by modifying an item's data record to reflect that payment has been made. *Id.* at 9a.

With respect to willfulness, MercExchange presented undisputed evidence that petitioners, despite their knowledge of the '265 patent, took no steps to avoid or to end their infringement. JA 446-447, 450-453; Pet. App. 35a. At trial,

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[4] The court did not find it necessary to elaborate on "what a trusted system must have versus what a person-to-person system encompasses." Pet. App. 39a. Nor did it rule that petitioners' system uses a "trusted network." Whether petitioners' systems use a "trusted network" was a question decided by the jury. *Id.* at 33a, 39a.

[5] The case went to the jury on both the '265 and '176 patents. Before trial, the court granted eBay summary judgment that certain claims of the '051 patent were invalid for lack of an adequate written description. *See* Pet. App. 2a. The Federal Circuit reversed that decision after finding that summary judgment was not warranted. *Id.* at 23a.

petitioners themselves asserted that they could have implemented—but had never tried to implement—a design-around that would have made their system non-infringing at a cost of only $8,000 and would not have caused any degradation in system performance. JA 862-863, 865; Pet. App. 35a.

The jury found that eBay and Half.com had willfully infringed the '265 patent. Pet. App. 29a, 73a.[6] Specifically, the jury found by clear and convincing evidence that petitioners were aware of the '265 patent and therefore had a duty to avoid infringing it, but that petitioners had failed to act in good faith to avoid such infringement. Tr. 3519, 3546-3547. The jury awarded damages to MercExchange for petitioners' past direct infringement of the '265 patent in the amount of $25 million. Pet. App. 73a.

4. After trial, petitioners moved for judgment as a matter of law, arguing that the district court should overturn the jury's verdict that the '265 patent was valid and infringed. The court rejected petitioners' arguments. With respect to validity, it ruled that the jury was "entirely reasonable" in rejecting petitioners' argument that prior art invalidated the '265 patent's claims. *Id.* at 40a-41a. The court disagreed with petitioners' non-infringement arguments as well, stressing that all of petitioners' arguments regarding whether their systems included elements required under the '265 patent had been made to the jury, which had reasonably rejected them. *Id.* at 39a-40a.

The district court also upheld the jury's finding of willful infringement. Consistent with the evidence at trial, the court observed that petitioners unquestionably had notice of respondent's patents and nonetheless "failed to obtain an opinion of counsel and conduct a patent clearance investigation." *Id.* at 35a. Petitioners' failure to implement a design-around that, they alleged, would have avoided infringement

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[6] The jury also found that eBay had willfully infringed the '176 patent. The Federal Circuit reversed that verdict after concluding that the '176 patent was invalid. *Id.* at 3a.

of the '265 patent at a cost of less than $10,000 "also weigh[ed] against them." *Id.*[7]

5. Having established that the '265 patent was valid and infringed, MercExchange moved for a permanent injunction to prevent further infringement. JA 84; Pet. App. 52a. The district court acknowledged that an injunction should normally issue once infringement has been established. Pet. App. 3a, 52a-59a. Nonetheless, the court denied MercExchange's motion, observing that the grant or denial of injunctive relief is not "automatic" but remains within the discretion of the trial judge. *Id.* at 52a. The court identified four factors governing the appropriateness of injunctive relief: whether denial of an injunction would irreparably harm MercExchange, whether MercExchange had an adequate legal remedy, the public interest, and the balance of hardships between MercExchange and petitioners. *Id.* at 53a.

As for the first factor—the existence of irreparable harm to the patent holder—the court noted that such harm is properly "presumed" where, "as here, validity and continuing infringement have been clearly established." *Id.* at 53a. The court nonetheless found three reasons to rule that, in this case, denial of an injunction would not irreparably harm MercExchange: MercExchange's "willingness to license its patents, its lack of commercial activity in practicing its patents, and its comments to the media" that its goal was not to put eBay out of business but rather to be compensated for eBay's infringement. *Id.* at 55a. The court found "additional weight" for its conclusion in MercExchange's failure to move for a preliminary injunction. *Id.*

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[7] The court observed that its earlier statement that "the sufficiency of the evidence of willfulness was 'a close call'"—a statement made in response to a motion for judgment as a matter of law *before* the case was submitted to the jury—was "of no consequence" in the wake of the jury's subsequent verdict that the evidence of willfulness was "clear and convincing" and the court's conclusion that the evidence of willfulness was "sufficient" to sustain that verdict. *Id.* at 35a. Petitioners quote the earlier statement (Br. 7), without mentioning the court's later determination that it was "of no consequence" to petitioners' liability.

The second factor identified by the court was whether the plaintiff had an adequate remedy at law. *Id.* at 55a-56a. Although the court acknowledged that "many cases state that monetary damages are typically inadequate," it found that "this is certainly an atypical case," because MercExchange "ha[d] licensed its patents to others in the past and ha[d] indicated its willingness to license the patents to the defendants in this case." *Id.* at 56a.

Regarding the third factor, the public interest, the district court observed that it was the "norm" that the public's interest in maintaining the patent system's integrity favors the patentee. The court nonetheless concluded that, in this case, the public interest factor was, in effect, evenly balanced. *Id.* at 57a-58a. The court identified an allegedly "growing concern" over "business method patents"—patents directed at ways of conducting commercial business—based on legislation introduced in 2001 that, if enacted, would have eliminated the presumption of validity for such patents, and on the PTO's decision to give special scrutiny to applications for business method patents. *Id.* at 57a. Moreover, according to the court, the public interest in protecting the integrity of the patent system was further diminished because "the patentee does not practice its patents." *Id.*

Finally, the district court concluded that the balance of hardships tipped "slightly" in eBay's favor. Pet. App. 58a. The court concluded this despite eBay's persistent claims that it could easily and inexpensively design around MercExchange's patents (*see* pp. 5-6, *supra*), and despite eBay's failure to identify any harm that an injunction would cause beyond potential contempt hearings for eBay's future continued infringement (JA 982, 1009-1018).[8]

The court explained its conclusion that the balance of hardships favored eBay by remarking that any harm to

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[8] eBay continues to tell the public that "any injunction that might be issued [in this case] will not have any impact on [eBay's] business." *See* eBay Form 10-Q (filed Oct. 25, 2005), *available at* http://investor.ebay.com/Edgar.cfm?DocType=Annual,Quarterly&Year=.

MercExchange caused by eBay's continued infringement could be adequately compensated by damages, given that MercExchange supposedly "exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." Pet. App. 58a. The court also noted that it would be "more inclined" to award enhanced damages for post-verdict infringement. *Id.* at 59a.[9] Were an injunction to issue, however, the court "envision[ed] contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine" if eBay were still infringing. *Id.* at 59a.

6. Petitioners appealed the denial of their motions for judgment as a matter of law and for a new trial on the '265 patent.[10] In a unanimous decision authored by Judge Bryson, the Federal Circuit affirmed the jury's verdict and the

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[9] The district court had denied MercExchange's requests for treble damages and attorney's fees based on petitioners' willfully infringing acts. *See* Pet. App. 74a. The Federal Circuit upheld those decisions. *Id.* at 3a.

[10] While the appeal was pending, eBay requested that the PTO reexamine the '265 patent. Reexamination is a process by which the PTO reconsiders the patentability of a patent's claims without any presumption of validity. Reexaminations can be requested early in litigation (35 U.S.C. § 302), thus giving a district court the opportunity to stay judicial proceedings pending a final determination in reexamination. *See* Kimberly A. Moore et al., *Patent Litigation and Strategy* 770 (2d ed. 2003) ("Courts are often willing to stay a litigation, especially in early stages, while the PTO conducts reexamination proceedings."). A third-party requester can respond to a patent holder's statement in response to a reexamination order (if the patent holder makes such a statement), but *ex parte* reexamination then proceeds much as original examination does, with the PTO issuing "office actions" and the patent holder responding to those actions without further third-party involvement. *See* 35 U.S.C. § 305, 37 C.F.R. §§ 1.530, 1.535. Historically, approximately 90% of requests for *ex parte* reexamination have been granted, but only about 10% of such reexaminations have resulted in cancellation of all of a patent's claims. U.S. Patent and Trademark Office, Ex Parte *Reexamination Filing Data—March 31, 2005*. About 90% of *ex parte* reexaminations have ended with confirmation of a patent's validity, and in more than 25% of these cases, *ex parte* reexamination has ended without any alteration to the originally issued claims. *Id.*

district court's judgment that the '265 patent was valid and infringed. Pet. App. 3a, 9a-12a. On the question of infringement, the Federal Circuit rejected petitioners' central argument that "there was no substantial evidence from which a reasonable jury could conclude that eBay's system 'transfer[red] the ownership' of a good for sale" as required by the '265 patent. *Id.* at 5a.[11] Hence, for the third time—on top of the jury's verdict and district court's rulings—it was determined that the '265 patent was valid and infringed.

7. MercExchange cross-appealed from the district court's denial of its motion for a permanent injunction (Pet. App. 3a, 26a), arguing that "[t]he district court abused its discretion by refusing to enter a permanent injunction." Resp. C.A. Br. 13; *see also id.* at 63-65.

The Federal Circuit reversed the district court and ruled that MercExchange was entitled to a permanent injunction against further infringement by petitioners. Pet. App. 3a. The Federal Circuit observed that the "essence" of the patent right is the right to exclude. *Id.* at 26a. Therefore, the court concluded, the "general rule" is that, once validity and infringement have been adjudged in the patentee's

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[11] The Federal Circuit rejected petitioners' argument that legal ownership must be transferred in a particular way under the '265 patent, observing that the '265 patent's claims "do not require that title be transferred pursuant to any particular steps or legal formalities." *Id.* at 9a. As the Federal Circuit explained, the '265 patent's specification "makes clear that the modification of the data record reflects that a buyer has paid for the good, and it is the payment for the good, accompanied by the data record modification, that accomplishes the transfer of legal ownership." *Id.* at 7a. Moreover, this transfer takes place in the context of a "trusted network," and this aspect "of the invention is part of what allows ownership to pass upon modification of the data record." *Id.* at 7a-8a. Petitioners thus are incorrect in suggesting that a finding of infringement was precluded by the district court's claim construction. *See* Br. 8 (claiming that MercExchange had argued to the jury that "modification of a data record could constitute a transfer of 'legal ownership,' despite the fact that the issue was resolved against MercExchange in the *Markman* rulings"). As the Federal Circuit ruled, the "district court's statement in its *Markman* order does not say" what petitioners claim it says. Pet. App. 9a.

favor, a permanent injunction should issue. *Id.* The court noted that district courts have discretion to deny such relief, and that courts have done so to protect the public interest. *Id.* A court may, for instance, decline to enter an injunction when "a patentee's failure to practice the invention frustrates an important public need for the invention." *Id.* One such example, the Federal Circuit observed, would be the need to use an invention to protect the public health. *Id.*

The Federal Circuit concluded, however, that the district court had not articulated any persuasive reason to exercise its discretion to deny a permanent injunction. First, the court concluded that a generalized concern over the desirability of business method patents was "not the type of important public need" that could justify the unusual step of denying injunctive relief. *Id.* at 26a. Second, the court found the prospect of contempt proceedings to be an insufficient basis for denying such relief. *Id.* at 26a-27a. The court noted that, in patent cases, continuing disputes after final judgment are not unusual, and that the absence of an injunction here would not prevent such disputes but instead only channel them into successive infringement actions. *Id.* at 27a.

The Federal Circuit also rejected the district court's reliance on MercExchange's willingness to license as a basis for denying a permanent injunction. *Id.* As the Federal Circuit explained, the right to exclude granted by a patent is not reserved for those who directly practice, rather than license, their patented inventions; the appropriate remedy to protect the right should therefore be available to both. *Id.* Finally, the court rejected the district court's conclusion that MercExchange's failure to move for a preliminary injunction weighed against granting a permanent injunction, noting that these two types of injunctions "are distinct forms of equitable relief that have entirely different prerequisites and serve entirely different purposes." *Id.* at 27a-28a.

8. Petitioners sought review in this Court, contending that the Federal Circuit erred in applying an "automatic" or "per se" rule requiring that a permanent injunction issue once a patent has been found valid and infringed. Pet. 3, 13.

Petitioners acknowledged, however, that permanent injunctions should "typically" issue under such circumstances. Pet. Reply 1. Petitioners did not seek review of any issue relating to validity or infringement. The Court granted review, and also directed the parties to address whether the Court should reconsider its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908).

SUMMARY OF ARGUMENT

I. The Federal Circuit applied the correct legal standard in reviewing the district court's decision. Contrary to petitioners' mischaracterizations, the "general rule" described by the Federal Circuit is not an "automatic" or "near-automatic" rule, nor is it a rule that ignores the district court's discretion to grant or deny an injunction. The Federal Circuit has consistently recognized that discretion but has also recognized its duty to police that discretion's exercise. In so doing, the Federal Circuit has affirmed denials of injunctions or vacated grants of injunctions in more than a dozen cases.

The "general rule" recognized by the Federal Circuit is entirely consistent with long historical practice. The first patent statute reflected the basic bargain underlying patent law that remains in effect to this day—a statutory right to exclude in exchange for disclosure of an invention. To enforce the terms of this bargain, the law, since at least the early nineteenth century, has uniformly been that, absent special circumstances, a permanent injunction will issue once patent infringement is found.

This "general rule" flows ineluctably from the nature of the patent right and the application of traditional principles of equity. It is therefore unsurprising that such a rule is also consistent with the general availability of permanent injunctions for other intellectual property rights, as well as analogous rights in property. The patent holder's right to exclude can be protected only by preventing others from encroaching on that right; thus, once a patent has been found valid and infringed, the patent holder will in most cases have ir-

refutably shown that it will suffer irreparable harm in the absence of an injunction. Only in rare cases will any balance of hardships or the public interest favor the adjudged infringer; in most cases those factors will strongly favor the patent holder. In other words, the discretionary application of traditional equity principles will, as a "general rule," result in the issuance of a permanent injunction once infringement and validity have been established.

II. The Federal Circuit correctly ruled that the district court abused its discretion in denying a permanent injunction here, because the reasons relied upon by the district court were either illogical, unreasonable, or irrelevant to the pertinent equitable factors. "Willingness to license" one's patent cannot estop the patent holder from asserting its right to exclude third parties, and the district court's contrary rule is not only unsupported by law but (by discouraging licensing) contrary to interests in promoting innovation and competition. The district court's asserted concern over business method patents is similarly illogical and irrelevant. MercExchange's patent was issued by the PTO and then found by a jury to have satisfied the statutory requirements for validity. These determinations cannot be overcome by reference to legislation Congress has not enacted, or special PTO procedures for reviewing business method patents.

The district court also erred in relying on MercExchange's "non-practice" of the invention as a ground to deny injunctive relief. Under this Court's precedent, licensing does not constitute "non-use," but even if it did, non-use cannot be a basis for denying a permanent injunction. *See Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908). Moreover, it is fundamentally contrary to equity to hold that the threat of contempt proceedings for violating an injunction should weigh in favor of an adjudged infringer—particularly willful infringers like petitioners, who have claimed all along to be able to implement, easily and inexpensively, a non-infringing way of operating their business. Finally, as the Federal Circuit correctly held, failure to move for a preliminary injunction is simply irrelevant

to whether a permanent injunction should issue after infringement and validity are found. In short, there are no legitimate interests, public or otherwise, that could justify denying a permanent injunction against petitioners.

III. This case provides no occasion for this Court to revisit its precedents regarding the standard for entering permanent injunctions in patent cases. This Court made clear in *Continental Paper Bag* that equitable relief is available even where the patent holder has failed *either* to use the invention directly *or* to license it to others. This case does not implicate that rule because it does not involve any such complete "non-use." Nonetheless, to the extent the district court based its denial of injunctive relief on MercExchange's failure to commercialize its invention directly, a decision to reverse the Federal Circuit would require this Court to disavow the central reasoning of *Continental Paper Bag*. It should not do so.

There is no good reason for this Court to depart from *Continental Paper Bag* or the almost 100 years of precedent that has followed it. *Stare decisis* has particular force here, because *Continental Paper Bag* interpreted a statutory provision that has since been reenacted without substantive change. Moreover, as both this Court and Congress's actions have repeatedly reaffirmed, Congress has chosen to "promote progress" not by imposing a use requirement but by granting patent holders a statutory "right to exclude" in return for disclosure of an invention. Petitioners and their *amici* have not provided sufficient ground for this Court to question the policy decisions Congress has made. Virtually all patent holders are "non-practicing" to a degree, and even if it were possible to distinguish between "good" and "bad" non-practicing entities, such distinctions not only have little, if any, basis in the facts of this case, but also involve policy judgments more appropriately left to Congress.

ARGUMENT

I. THE FEDERAL CIRCUIT APPLIED THE CORRECT LEGAL STANDARD IN REVIEWING THE DISTRICT COURT'S DENIAL OF A PERMANENT INJUNCTION

A. A "General Rule" Favoring Permanent Injunctions Is Fully Consistent With Traditional Equity Principles

1. Petitioners expend great effort attempting to show that the Federal Circuit applies, and applied in this case, an "automatic" or "near-automatic" rule that a permanent injunction must issue when a valid patent has been found to be infringed. This characterization of the Federal Circuit's case law, as well as that of its decision here, is inaccurate. The Federal Circuit did state below—as it has stated before—that "the *general* rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (emphasis added). But a "general" rule is not an "automatic" rule, and a general rule as to how a court's equitable discretion should be applied can be entirely consistent with traditional equity principles—especially where, as here, the rule has a pedigree of great antiquity, *see* pp. 20-22, *infra*. As Chief Justice Marshall observed with respect to a "motion to the discretion of the court" to issue a subpoena duces tecum, such a motion "is a motion, not to [the court's] inclination, but to its judgment; and its judgment is to be guided by sound legal principles." *United States* v. *Burr*, 25 F. Cas. 30, 35 (C.C.D. Va. 1807) (No. 14692D).[12]

Even where Congress has explicitly committed a remedy to the district courts' equitable discretion, the nature of the rights at stake and the statutorily expressed public interest can mean that certain equitable remedies should be awarded "in all but very unusual circumstances." *Albemarle*

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[12] It has long been recognized that discretion according to "principles of courts of equity" is "not a wholly unregulated discretion," but instead one "guided by certain well settled rules." George Ticknor Curtis, *A Treatise on the Law of Patents for Useful Inventions in the United States of America* § 315, at 359-360 (1849) ("Curtis (1849)"); *see also Ex parte Wood*, 22 U.S. 603, 608 (1824) (Story, J.).

Paper Co. v. *Moody*, 422 U.S. 405, 415 (1975). Thus, in *Albemarle*, the Court concluded that, in light of the "purpose of Title VII [of the Civil Rights Act of 1964] to make persons whole for injuries suffered on account of unlawful employment discrimination," as well as "the historic purpose of equity to secure complete justice," courts should generally exercise their equitable powers to award backpay to victims of discrimination, and may decline to do so only for reasons that, "if applied generally, would not frustrate the central statutory purposes" of the law. *See id.* at 418, 421. Similarly, in *Mitchell* v. *DeMario Jewelry*, 361 U.S. 288, 292 (1960), the Court concluded that the Fair Labor Standards Act of 1938 vested the district court with the "historic power of equity" to redress violations, and stressed that the "statutory purposes [leave] little room for the exercise of discretion not to order reimbursement." This Court has also ruled that, under the civil rights laws' statutory provisions for the discretionary award of attorney's fees, prevailing plaintiffs generally are to be awarded their fees, whereas prevailing defendants generally are not.[13] In sum, a "general rule" that a particular equitable remedy is necessary to effectuate a congressional purpose is entirely consistent with congressional authorization for courts to exercise equitable powers.

The cases cited by petitioners only support propositions that are inapplicable here—for example, the rule that irreparable harm cannot be presumed from the bare violation of a statute where none of the harms the statute was designed to prevent have occurred. *See, e.g.*, *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 59 (1975); *Amoco Prod. Co.* v. *Village of Gambell*, 480 U.S. 531, 541, 544-545 (1987). That

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[13] *See Newman* v. *Piggie Park Enters.*, 390 U.S. 400, 402 (1968) (holding that, although federal civil rights laws give district courts discretion to award attorney's fees, a prevailing plaintiff "should ordinarily recover attorney fees unless special circumstances would render an award unjust"); *Christiansburg Garment Co.* v. *E.E.O.C.*, 434 U.S. 412, 422 (1978) (holding that a civil rights plaintiff should not be forced to pay a prevailing defendant's attorney's fees "unless a court finds that his claim was frivolous").

rule does not apply where a patent has been found to be valid and infringed. There, the harm to the patent holder—violation of the right to exclude—is precisely that which the Patent Act seeks to prevent. A presumption of irreparable harm follows from violation of this statutory right, just as it does in other areas of intellectual property, *see* p. 26, *infra*.

-2. The "general" rule recognized by the Federal Circuit does not "automatically" require that a permanent injunction issue in every case in which a valid patent has been infringed. Nor does that court apply *de novo* review to a decision to grant or deny an injunction. The Federal Circuit has long held that district court decisions regarding injunctive relief are subject to abuse-of-discretion review only.[14] Indeed, in *Kearns* v. *Chrysler Corp.*, 32 F.3d 1541, 1551 (Fed. Cir. 1994), the Federal Circuit highlighted precisely the point petitioners now claim that court ignores—namely, that 35 U.S.C. § 283 says that a district court "may" exercise its discretion to grant an injunction, not that it "shall" or "must" do so. Similarly, in *Odetics, Inc.* v. *Storage Technology Corp.*, 185 F.3d 1259, 1272 (Fed. Cir. 1999), the Federal Circuit made clear that, "while we have stated the general rule that an injunction should follow an infringement verdict, we also recognize that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction." The Federal Circuit has consistently reaffirmed these

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[14] *See, e.g., Mallinckrodt, Inc.* v. *Masimo Corp.*, 147 Fed. Appx. 158, 177 (Fed. Cir. 2005) (non-precedential); *Tate Access Floors, Inc.* v. *Maxcess Techs., Inc.*, 222 F.3d 958, 964 (Fed. Cir. 2000); *Odetics, Inc.* v. *Storage Tech. Corp.*, 185 F.3d 1259, 1272 (Fed. Cir. 1999); *Carborundum Co.* v. *Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 881 (Fed. Cir. 1995); *Ortho Pharm. Corp.* v. *Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992); *W.L. Gore & Assocs., Inc.* v. *Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988); *Amstar Corp.* v. *Envirotech Corp.*, 823 F.2d 1538, 1549 (Fed. Cir. 1987); *Windsurfing Int'l, Inc.* v. *AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986); *Trans-World Mfg. Corp.* v. *Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1564 (Fed. Cir. 1984); *see also* Robert L. Harmon, *Patents And The Federal Circuit* § 16.1(c), at 919 (7th ed. 2005) (citing circuit precedent).

holdings,[15] which the decision below properly acknowledged (Pet. App. 26a).

In recognition of the fact that the decision to grant or to deny an injunction is not mechanical, and must be made on the facts of the particular case,[16] the Federal Circuit has at least partially vacated, or required narrowing of, permanent injunctions in several patent cases,[17] and has affirmed deni-

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[15] *See, e.g., Mallinckrodt*, 147 Fed. Appx. at 177; *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1380-1381 (Fed. Cir. 2005); *Xerox Corp.* v. *3Com Corp.*, 61 Fed. Appx. 680, 685 (Fed. Cir. 2003); *Carborundum*, 72 F.3d at 880-881, 882 n.9; *Joy Techs., Inc.* v. *Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993); *Ortho Pharm. Corp.*, 959 F.2d at 945; *W.L. Gore & Assocs.*, 842 F.2d at 1281; *Amstar*, 823 F.2d at 1549; *Windsurfing Int'l*, 782 F.2d at 1002; *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865-866 (Fed. Cir. 1984); *see also* Harmon, *supra* n.14, § 16.1(a), at 915 n.12.

[16] In partial answer to *amici*'s concerns about potential abuse of the process for obtaining patents (*see, e.g.*, Br. of *Amicus* Yahoo!, Inc. 5-11), the Federal Circuit has also held that, if a patent applicant causes undue delays in that process, prosecution laches may make the resulting patent unenforceable. *Symbol Techs., Inc.* v. *Lemelson Med. Educ. & Research Found.*, 277 F.3d 1361, 1363 (Fed. Cir. 2002).

[17] On at least four occasions, the Federal Circuit has vacated a permanent injunction for failure to comply with Fed. R. Civ. P. 65(d), which requires, in part, that "[e]very order granting an injunction" "be specific in terms" and "describe in reasonable detail . . . the act or acts sought to be restrained." *Collins* v. *Platts*, 112 Fed. Appx. 25, 26 (Fed. Cir. 2004); *International Rectifier Corp.* v. *IXYS Corp.*, 383 F.3d 1312, 1316, 1319 (Fed. Cir. 2004); *Rocket Jewelry Box, Inc.* v. *Quality Int'l Packaging, Ltd.*, 90 Fed. Appx. 543, 548 (Fed. Cir. 2004); *Additive Controls & Measurement Sys., Inc.* v. *Flowdata, Inc.*, 986 F.2d 476, 479-480 (Fed. Cir. 1993). On at least two occasions, the Federal Circuit has at least partially vacated an injunction for violating § 283 by going beyond prohibiting infringing activity. *Johns Hopkins Univ.* v. *Cellpro, Inc.*, 152 F.3d 1342, 1365-1367 (Fed. Cir. 1998); *Joy Techs.*, 6 F.3d at 776-777. Other bases for vacating or modifying injunctions have been lack of subject matter jurisdiction, failure to conform an injunction to a prior Federal Circuit decision, and concern to avoid "double recovery." *Inline Connection Corp.* v. *Atlantech Online, Inc.*, 85 Fed. Appx. 767, 769-770 (Fed. Cir. 2004); *Joy Techs., Inc.* v. *Flakt, Inc.*, No. 94-1178, 1994 WL 745884 (Fed. Cir. Mar. 15, 1994) (*per curiam*); *Stickle* v. *Heublein*, 716 F.2d 1550, 1563 (Fed. Cir. 1983).

als of such injunctions in several other cases.[18] In only six known instances (including the decision below) has the Federal Circuit reversed a district court's denial of a permanent injunction.[19] Further, these reversals provide no evidence of a long-term trend against district court discretion to deny injunctions; only three of them occurred in the last sixteen years, and one of those three was effectively unopposed.[20]

While Judge Bryson's opinion did not recite the words "abuse of discretion," there is no reason to believe that the decision below unexpectedly departed from the principles outlined above. The opinion explicitly recognized that there can be circumstances where an injunction should not issue—such as, but not necessarily limited to, one where "a patentee's failure to practice the patented invention frustrates an important public need for the invention." Pet. App. 26a. Moreover, both parties had acknowledged that the abuse-of-discretion standard applied. *See* Pet. C.A. Reply Br. 31; Resp. C.A. Br. 13, 63. The absence of a *pro forma* recitation

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[18] *Fuji Photo*, 394 F.3d at 1380-1381 ("proofs required for determining future infringing activity" "not insignificant and not amenable to a narrowly tailored order"); *Odetics*, 185 F.3d at 1272-1274 (laches); *Kearns*, 32 F.3d at 1550 ("Kearns' patents ha[d] expired," and "Chrysler ha[d] been manufacturing and selling its infringing [windshield wipers] for many years and Kearns ha[d] not."); *Magnavox Co.* v. *Activision, Inc.*, 848 F.2d 1244, 1988 WL 44721, at *3 (Fed. Cir. May 9, 1988) (table) ("no evidence of a substantial threat of future infringement or irreparable harm"); *Lear Siegler, Inc.* v. *Sealy Mattress Co.*, 846 F.2d 78, 1988 WL 24933, at *2 (Fed. Cir. Mar. 25, 1988) (table) (damages may have been "full compensation for the life of the patent"); *Amstar*, 823 F.2d at 1548-1549 (patent holder already awarded "full compensation for the making and using" of machines at issue).

[19] *Mallinckrodt*, 147 Fed. Appx. at 177; Pet. App. 3a; *Tate Access Floors*, 222 F.3d at 972; *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989); *W.L. Gore & Assocs.*, 842 F.2d at 1282; *Windsurfing Int'l*, 782 F.2d at 1003.

[20] In *Tate Access Floors*, an abuse of discretion was found after the defendant said it would "not oppose the entry of a permanent injunction" if a jury verdict of infringement was upheld. 222 F.3d at 972.

of that standard is not cause for reversal. *See Cooter & Gell* v. *Hartmarx Corp.*, 496 U.S. 384, 399, 405 (1990).

B. The Federal Circuit's Approach Is Consistent With A Long History Of Robust Enforcement Of Statutory Rights To Exclude

Petitioners strain to depict the Federal Circuit's approach to permanent injunctions as an innovation that is inconsistent with the law prior to that court's creation. Quite the reverse is true: permanent injunctive relief for infringement of a valid patent has long been a bedrock principle of patent law. Indeed, if anything, such relief was much more "nearly automatic" in the past than it is under the Federal Circuit's case law. The "general rule" favoring a permanent injunction against continued infringement of a valid patent is also entirely consistent with the purposes reflected in the Patent Act and the Patent Clause of the Constitution.

1. From our nation's founding to the present, Congress has recognized that patents serve the public interest by providing incentives to invent, to disclose inventions, and to turn inventions into commercial reality.[21] The key to patents' incentive power is the provision of a right to exclude others from exploiting the patented invention. Hence, the Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the *exclusive Right* to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8 (emphasis added). And one of the first acts of Congress was the Patent Act of 1790, which provided "exclusive right[s]" in return for disclosure of a patented invention.[22]

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[21] *See, e.g.*, Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition in Patent Law and Policy*, ch. 1, at 4-7 (2003) ("FTC Report"); *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (observing that "patent law seeks to foster and reward invention," and "promotes disclosure of inventions").

[22] Patent Act of 1790, §§ 1-2, 1 Stat. 709; *see* Edward C. Walterscheid, *To Promote the Progress of Useful Arts: American Patent Law and Administration, 1798-1836*, at 463-465 (1998); Robert Patrick Merges

The first patent statute thus offered the basic bargain—statutory rights to exclude in exchange for disclosure of the invention—that remains at the heart of United States patent law. Except for a short-lived experiment with a "working" requirement for foreign inventors in the 1830s, Congress has never required that a patent be practiced by the inventor for the patentee to enjoy the right to exclude.[23] Section 271(d) of the current Patent Act, 35 U.S.C. § 271(d), makes clear that disclosure, not active exploitation of patent rights, provides full consideration for the statutory right to exclude. 35 U.S.C. § 271(d)(4) ("refus[al] to license or use any rights to the patent" not a ground for "den[ying] relief" to which a patent holder is "otherwise entitled"). Although Congress has adopted several narrow compulsory-licensing provisions for situations involving special public interests, Congress has repeatedly declined to enact additional limitations on the right to exclude. *See* p. 33, *infra*.

2. From the first patent act, permanent injunctions have been a central aspect of enforcement of the statutory right to exclude. Although the Patent Acts of 1790 and 1793 did not explicitly authorize federal courts to issue injunctions in cases where they exercised subject matter jurisdiction arising under the patent laws, state equity courts could hear and issue injunctions in patent cases (until 1870), as could federal courts, sitting in diversity, on the "equity

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& Glenn Harlan Reynolds, *The Proper Scope of the Copyright and Patent Power*, 37 Harv. J. on Legis. 45, 49 (2000); *see generally Grant* v. *Raymond*, 31 U.S. 218, 241 (1832) (Marshall, C.J.) ("[I]t cannot be doubted that the settled purpose of the United States has ever been, and continues to be, to confer on the authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent.").

[23] This basic bargain—rights to exclude in return for disclosure—reflected a sea change in British patent law, which evolved from a system requiring a patentee to "work" the invention, to one instead requiring a patentee to disclose the invention in a written description. E. Wyndham Hulme, *On the Consideration of the Patent Grant, Past and Present*, 13 L.Q. Rev. 313, 318 (1897); *see also* Walterscheid, *supra* n.22, at 403.

side."[24] Thus, when the Patent Act of 1819 expressly authorized federal courts to issue injunctions in patent and copyright cases, it was not authorizing relief that was previously unavailable as a general matter. *See Computing Scale Co.* v. *Toledo Computing Scale Co.*, 279 F. 648, 671 (7th Cir. 1921). Instead, the act merely eliminated a jurisdictional anomaly requiring a patent holder to seek equitable relief in state courts if federal diversity jurisdiction was lacking. *See Root* v. *Railway Co.*, 105 U.S. 189, 192-193 (1881); *see also* Br. of *Amici* General Electric et al. 6-9.

Moreover, from at least the early nineteenth century, the law has uniformly been that, absent special circumstances, a permanent injunction should issue once patent infringement is found.[25] The circuit courts consistently recog-

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[24] *See Root* v. *Railway Co.*, 105 U.S. 189, 191-192 (1881); *Livingston* v. *Van Ingen*, 15 Fed. Cas. 697, 700 (C.C.D.N.Y. 1811) (No. 8,420).

[25] Harmon, *supra* n.14, § 16.1(a), at 915 (7th ed. 2005) (It is "the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."); Terence P. Ross, *Intellectual Property Law: Damages and Remedies* § 11.04[5], at 11-49 (2000) ("The 'general rule' is that in patent litigation an injunction will issue when a court enters a judgment of infringement, absent a 'sound reason' for denying the injunction."); 8 Anthony William Deller, *Deller's Walker on Patents* § 719, at 464 (2d ed. 1973) ("A permanent injunction follows a decision in favor of the complainant on the interlocutory hearing of a patent case unless some special reason exists for its being refused[,] postponed[,] or ... suspended pending an appeal."); Herbert F. Schwartz, Note, *Injunctive Relief in Patent Infringement Suits*, 112 U. Penn. L. Rev. 1025, 1041-1042, 1044 (1964) (By the mid-nineteenth century, permanent injunctions were "often granted as a matter of course," and this practice "continued" in the twentieth century.); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328, 342-343 (1958) ("Once the issues have been finally adjudicated in the plaintiff's favor, a permanent injunction is usually granted as a matter of course."); William Macomber, *The Fixed Law of Patents as Established by the Supreme Court of the United States and the Nine Circuit Courts of Appeals* 37 (1909) ("[A] final and perpetual injunction is, when the complainant has shown his right under a living patent to equitable relief on final hearing, a matter of right[.]"); 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 1220, at 653 (1890) ("A perpetual injunction issues, as a matter of course, at the conclusion of a suit in equity, whenever the plaintiff

nized the absolute nature of a patent holder's rights to exclude, as well as the concomitant rule that injunctions for patent infringement should generally issue.[26] Traditional equity practice was, if anything, more strict in requiring injunctions against infringement than any "general" rule that the Federal Circuit is now said to follow. For example, in accordance with the principle that equity courts were to follow the rulings of courts of law, the accepted rule was that, once a law court had found patent validity and infringement, an equity court essentially *had* to issue an injunction.[27]

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has sustained the allegations of his bill, provided the patent has not then expired."); William Edgar Simonds, *A Summary of the Law of Patents for Useful Inventions with Forms* 250 (1883) ("When in the course of an equity suit, the court . . . finds that the patent is valid, and that it has been infringed, the court grants, as a matter of course, a perpetual injunction[.]"); J.G. Moore, *Patent Office and Patent Laws: or, A Guide to Inventors and a Book of Reference for Judges, Lawyers, Magistrates and Others* 175 (1855) ("Where a court of equity . . . is well satisfied of the originality of an invention, the regularity of a patent, and of the facts of infringement, it will not send the case to a jury to have its verdict, prior to granting a perpetual injunction. It will grant it at once[.]"); Curtis (1849), *supra* n.12, § 345, at 388 ("After a trial and judgment at law, in favor of the plaintiff, the injunction will be revived or granted as matter of course.").

[26] *See, e.g., United States* v. *Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1127 (D.C. Cir. 1981) ("A patentee has the right to an injunction barring use of the patented process or product without his permission[.]"); *Montgomery Ward & Co.* v. *Clair*, 123 F.2d 878, 883 (8th Cir. 1941) ("[A]n injunction applying to future conduct will not usually be denied unless the elements of estoppel exist."); *Indiana Mfg. Co.* v. *J.I. Case Threshing Mach. Co.*, 154 F. 365, 371 (7th Cir. 1907) (patent law provides an inventor with "an unqualified right to deprive the people of [an invention's] use for 17 years," and not "a lesser right conditioned upon his giving the public the benefit of his invention in a way some chancellor might deem equitable"); *Electric Smelting & Aluminum Co.* v. *Carborundum Co.*, 189 F. 710, 711 (C.C.W.D. Pa. 1900) ("Ordinarily such decree for an accounting, and an injunction follows as a matter of course, unless there are cogent reasons for departing from such course."); *Rumford Chem. Works* v. *Hecker*, 20 F. Cas. 1347, 1348 (C.C.D.N.J. 1876) (No. 12,134) ("[T]he ordinary practice is for an injunction, as a matter of course, to follow a decree in favor of the complainant on the merits[.]").

[27] *See, e.g., Woodworth* v. *Stone*, 30 F. Cas. 593, 594 (C.C.D. Mass. 1845) (No. 18,021) (Story, J.) ("A bill will lie for an injunction, if the patent

Petitioners and their *amici* identify scattered cases in which permanent injunctions were denied, or in which courts suggested that an injunction should not be used merely "to enhance [a patent holder's] negotiating stance," *Foster* v. *American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974). In fact, the cases in which injunctions were denied were quite clearly the rare exceptions.[28] In general,

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right is admitted or has been established, upon well grounded proof of an apprehended intention of the defendant to violate the patent right."); Willard Phillips, *The Law of Patents for Inventions Including the Remedies and Legal Proceedings in Relation to Patent Rights* 468 (1837) ("If on a trial at law the plaintiff establishes his right, the injunction on the defendant is, on his motion, made perpetual[.]"); W.M. Hindmarch, *A Treatise on the Law Relative to Patent Privileges for the Sole Use of Inventions: And the Practice of Obtaining Letters Patents for Inventions* 215-216 (1847) ("If the patent has been established in a Court of Law . . . , and it has been shown that the defendant has actually committed an infringement of the patent privilege, the plaintiff is clearly entitled to" an injunction, and "it would be useless for a defendant further to resist[.]"); *see also* 2 Robert Henley Eden, *A Compendium of the Law and Practice of Injunctions, and of Interlocutory Orders in the Nature of Injunctions* 306-3, n.1 (3d ed. 1852) ("'But where the right is clear an injunction is never refused.'" (quoting *Livingston* v. *Van Ingen*, 9 Johns. Rep. 507 (N.Y. Sup. Ct. 1812 Term) (Yates, J.))). Indeed, for much of the nineteenth century, even the granting of *preliminary* injunctions appears to have been "automatic" once the patent holder made a "clear"—sometimes only a "reasonable"—showing of patent validity and infringement. *See, e.g.*, Schwartz, Note, 112 U. Penn. L. Rev. at 1029; Curtis (1849), *supra* n.12, § 325, at 368.

[28] *See* Donald S. Chisum et al., *Principles of Patent Law* 1342 (3d ed. 2004) ("[F]or more than two hundred years, the result has almost always been that, after there has been a final determination of infringement, the prevailing patent owner will be granted a[n] injunction[.]"); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328, 342-343 (1958) ("[O]n rare occasions the courts have refused [a permanent injunction] when the nature of the injury was trifling or when the defendant would have suffered injury out of all proportion to the value of protecting the patentee's monopoly[.]"). Scholars have described one famous case in which denial of an injunction was considered, *Vitamin Technologists, Inc.* v. *Wisconsin Alumni Research Found.*, 146 F.2d 941 (9th Cir. 1944), as "a far extreme of judicial thinking on the subject, as few cases refuse to enforce patents for broad public policy reasons." Robert Patrick Merges & John Fitzgerald Duffy, *Patent Law and Policy: Cases and Materials* 1062 (3d ed. 2002).

those cases involve precisely the sort of extraordinary circumstances for which the Federal Circuit's "general rule" allows exceptions—cases involving substantial innocent third-party and public interests, or an infringer's innocent and substantial commitment of resources grossly out of proportion to any benefit from the invention.[29] And to the extent that the Second Circuit's decision in *Foster* stands for the proposition that a patent non-user should receive only "half a loaf" when it comes to remedies, or that hardships should be freely balanced without special consideration for the patent holder's statutory right, *Foster*—not the Federal Circuit's case law—deviates from long-established rules of equity.[30] *See* pp. 31-32, 38, *infra*. Indeed, one of the reasons the Federal Circuit was created was to eliminate anomalies in patent law that outlier circuits—including the Second Circuit—had produced.[31]

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[29] *See, e.g., Nerney* v. *New York, N.H. & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1946) (denying extension of injunction's scope to cover incidental transit of infringing railroad cars manufactured and operated by non-parties); *Electric Smelting & Aluminum Co.*, 189 F. at 712-714 (bond could replace an injunction in an "exceptional" situation where defendants were not "wanton, reckless" infringers, and injunction would force shutdown of defendants' business, "throw[ing] out of employment a hundred and fifty men for whom there is no other carborundum works in which to seek employment"); *Draper Co.* v. *American Loom Co.*, 161 F. 728, 732 (1st Cir. 1908) (instructing that an injunction might be denied where it might seriously disrupt defendant's business and patent would expire in three months).

[30] Another opinion that petitioners cite (Br. 48), *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F.2d 734, 734 (2d Cir. 1934), does not explain why the court found no "danger of irreparable injury or a multiplicity of suits." To the extent it suggests that damages generally "sufficient[ly] recompense" continuing infringement, *id.* at 734-735, it is also inconsistent with traditional equity principles. *See* pp. 28-29, *infra*.

[31] The Second Circuit's antipathy to patent enforcement was notorious. *See* Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. Rev. 1, 7 (1989) ("[I]n the period 1945-1957, a patent was twice as likely to be held valid and infringed in the Fifth Circuit than in the Seventh Circuit, and almost four times more likely to be enforced in the Seventh Circuit than in the Second Circuit.").

3. The Federal Circuit's recognition that permanent injunctions should generally follow a determination of patent infringement is also consistent with the general availability of injunctive relief for copyright and trademark violations under statutory provisions similar to 35 U.S.C. § 283, namely, 15 U.S.C. § 1116(a) and 17 U.S.C. § 502(a).[32] In copyright and trademark cases, the general rule has been that, when past infringement and a threat of continuing infringement are shown, a permanent injunction will issue.[33] Indeed, a leading treatise on copyright indicates not only that injunctions ordinarily issue, but also that, "[g]enerally, it would appear to be an abuse of discretion to deny a permanent injunction where liability has been established and there is a threat of continuing infringement." 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.06[B], at 145 (2005). As with patents, the nature of the right is the basis for this "general rule." Like patents, copyright and trademark create rights to exclude that are often

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[32]Prior to the Copyright Act of 1976, the applicable statutory provision for copyright infringement, like that for patent infringement, explicitly authorized injunctions "according to the course and principles of courts of equity." 17 U.S.C. § 112 (1976). Contrary to the suggestion of petitioners' *amici* (Br. of 52 Intellectual Property Professors 3), omission of language regarding equity from 17 U.S.C. § 502(a) has not been understood to have changed the principles regulating injunctive relief. *See* 2 Paul Goldstein, *Goldstein on Copyright* § 11.2.1, at 11:9-11:10 (3d ed. 2005).

[33] *See, e.g.*, *Walt Disney Co.* v. *Powell*, 897 F.2d 565, 567-568 (D.C. Cir. 1990) ("When a copyright plaintiff has established a threat of continuing infringement, he is entitled to an injunction."); *United States Jaycees* v. *Cedar Rapids Jaycees*, 794 F.2d 379, 282 (8th Cir. 1986) (injunctions for trademark infringement denied only in the most unusual circumstances); *Restatement (Second) of Torts* § 938 cmt. b (injunctions routine in trademark cases); 1 Dan B. Dobbs, *Dobbs Law of Remedies* § 2.5(3), at 134-135 (2d ed. 1993) (injunctions "go readily and even routinely" for trademark, copyright, and patent infringement); *see also* 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 30:1, at 30-6 (2005); Ross, *supra* n.25, § 11.03[5], at 11-34 (Supp. 2005) (copyright); *id.* § 11.05[5], at 11-64 to 11-65 (trademark); Patrick J. Flinn, *Handbook of Intellectual Property Claims and Remedies* § 7.07[C][1], at 7-64.2 (copyright).

difficult to measure in monetary terms and are "depend[ent] on the ability to enforce the exclusivity." 1 Dan B. Dobbs, *Dobbs Law of Remedies* § 2.5(3), at 135 (2d ed. 1993).[34]

In sum, the Federal Circuit's approach to permanent injunctions is entirely consistent with historical equity practice. By repeatedly re-enacting statutory language authorizing injunctions according to principles of equity, Congress has long acquiesced in the "general rule" of equity that has resulted.[35] Scattered cases in which federal courts have denied permanent injunctions are inadequate to overcome the overwhelming authority supporting this "general rule."

C. Traditional Equitable Factors Generally Favor An Injunction When A Valid Patent Has Been Infringed

1. Petitioners argue that, in deciding whether to enter a permanent injunction in patent cases, courts should follow a "traditional four-factor test" (Br. 20) that they discern in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 311-312 (1982). In fact, *Weinberger* did not speak of any "test" for equitable relief, with four factors or otherwise. What *Weinberger* did say was that "[t]he Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable harm and the inadequacy of legal remedies." *Id.* at 312. As the Federal Circuit has recognized, where a valid patent has been found infringed, these two factors will generally point in favor of an injunction. *See* pp. 28-31, *infra*.

The Court further stated in *Weinberger* that, "[w]here plaintiff and defendant present competing claims of injury,

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[34] Indeed, the right to exclude is even more precious in the patent than in the copyright or trademark context; the latter also provide the holder with the right to *use* the intellectual property, but the patent holder *only* has the right to exclude others.

[35] Patent Act of 1836, ch. 357, § 17, 5 Stat. 117; Patent Act of 1870, ch. 230, § 55, 16 Stat. 198; Patent Act of 1897, ch. 391, 29 Stat. 692-694, § 4921 (R.S. 4921); Patent Act of 1952, ch. 950, § 1, 66 Stat. 812 (codified at 35 U.S.C. § 283); *see also* S. Rep. No. 82-1979, *reprinted in* 1952 U.S.C.C.A.N. 2394, 2403, 2423 (§ 283 is "the same as" its statutory predecessor, "with minor changes in language").

the traditional function of equity" has been to reconcile those competing claims. 456 U.S. at 312. But the Court did not suggest that in every class of case, a defendant will necessarily have a "competing claim of injury" that warrants a place in the balance against a prevailing plaintiff. In patent cases, that point is particularly important, because any "competing claim of injury" that a defendant might have is likely to be deprivation of the economic benefit from continuing its infringement of the plaintiff's patent. Deprivation of such a *wrongful* benefit is not the kind of injury of which equity takes cognizance. *See* p. 31, *infra*. And the point that an infringer is not well situated to make a claim on equity is redoubled in cases like this one, where the jury has found conduct that constituted *willful* infringement from the start. A willful infringer has, at the very least, engaged in "egregious and reckless conduct," *Union Carbide Chems. & Plastics Tech. Corp.* v. *Shell Oil Co.*, 425 F.3d 1366, 1381 (Fed. Cir. 2005), and thus, as more generally with those who have acted in bad faith, can typically "make no claims whatsoever on the Chancellor's conscience." *Albemarle*, 422 U.S. at 432; *see* n.45, *infra* (jury found here that petitioners failed to act in good faith to avoid infringement).

2. Once a patent has been found to be valid and infringed, the plaintiff will, in most cases, have irrefutably shown that it lacks an adequate remedy at law, and that denial of injunctive relief will cause it irreparable harm.[36] These conclusions follow from the nature of the patent right itself. *See Continental Paper Bag Co.*, 210 U.S. at 430 ("From the character of the right of the patentee we may judge of his remedies."). The patent right's fundamental aspect—its sum total—is "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. § 154(a)(1). What the law

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[36] Inadequacy of legal remedies and irreparable injury if equitable relief is denied are, in effect, two sides of the same coin. *See* Douglas Laycock, *Modern American Remedies: Cases and Materials* 370 (3d ed. 2002).

gives patentees is, in essence, the right to invoke the power of the state, via the courts, to enforce this right to exclude. Without a mechanism to prevent others from encroaching on this right, a patent holder does not obtain the benefit of what Congress has bestowed. As the Court stated in *Continental Paper Bag*, "the right can only retain its attribute of exclusiveness by a prevention of its violation." 210 U.S. at 430; *see also Fuller* v. *Berger*, 120 F. 274, 279 (7th Cir. 1903) ("Injunction, it is evident, is the only means equal to enforcing the right to exclude.").[37]

In this regard, patent rights are very similar to other property rights that, courts have long concluded, ordinarily warrant protection through injunctive relief. Patent infringement involves violation of property rights that are inherently unique (indeed, novel and nonobvious, 35 U.S.C. §§ 101-103) and irreplaceable. Hence, as with real property, unique personal property,[38] and other intellectual property

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[37] Petitioners erroneously assert that an injunction is unnecessary to protect the right to exclude because enhanced damages suffice to deter future infringement. Br. 23. That is not true, as this case well demonstrates. MercExchange's expert calculated the reasonable royalty for past infringement at 0.75% of gross merchandise sales. Tr. 1977. Because eBay's profit margins are above 80%, even trebling the damages here would leave petitioners with a healthy profit—and with no incentive to cease infringing. *See* Richard Waters, Financial Times UK (Jan. 21. 2005) (eBay's gross profit margin "above" 80 percent).

[38] Petitioners and their *amici* try to make much of the fact that the Patent Act provides that, "[s]ubject to the provisions of this title, patents shall have the attributes of personal property." 35 U.S.C. § 261. Because invasions of rights to *fungible* personal property (unlike real property or unique personal property) generally are remedied through damages rather than injunctive relief, petitioners argue that patent infringement also need not be remedied through injunctive relief. Br. 26-28. But there is no reason to believe that Congress meant § 261 to govern the kind of *relief* to be given under the Patent Act; if Congress had so intended, then it is hardly likely that Congress would have authorized federal courts to issue injunctions against infringement, precisely because the background principle favoring only legal remedies for the conversion of fungible personal property is clear. Rather, § 261 appears primarily intended to make clear that patents are not subject to complex state-law rules governing recordation and transfer of real property, and are instead subject, for

such as copyright, continued infringement of a patent inflicts irreparable harm that cannot be adequately remedied through *ex post* damages, and should ordinarily be prevented through injunctive relief.[39]

Absent an injunction, the possibility of continued infringement means that a patent holder will need to bring multiple lawsuits to protect its legal rights—the very opposite of the repose that legally confirmed title to a "right to exclude" is meant to provide. Justice Story emphasized this point when he first explained that courts grant injunctions to protect patent rights so as "to prevent irreparable mischiefs, or to suppress multiplicity of suits and vexatious litigation," and then further warned that, "if no other remedy could be given in cases of patents and copy-rights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation, without ever being able to have a final establishment of his rights." 2 Joseph Story, *Commentaries on Equity Jurisprudence as Administered in England and America* §§ 930-931, at 209-210 (1836). And even if monetary relief were a theoretically

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purposes of transfer and assignment, to separately developed rules for personal property. *Cf. Hartley Pen Co.* v. *Lindy Pen Co.*, 102 U.S.P.Q. 151, 156 (1954) (courts must look to state law governing acquisition of personal property in patent ownership disputes). Moreover, to the extent patents are like personal property, they are unique and irreplaceable property, and therefore an invasion of patent rights, like an invasion of rights in unique personal property, ordinarily warrants an injunction.

[39] *See* 2 Joseph Story, *Commentaries on Equity Jurisprudence as Administered in England and America* § 709, at 18-19 (1836) (noting that "there are cases [involving chattels], in which such a remedy at law by damages would be utterly inadequate," and that, "[i]n all such cases, Courts of Equity will interfere . . . by requiring a specific delivery of the thing, which is wrongfully withheld"); Dobbs, *supra* n.33, § 2.5(2), at 130; Douglas Laycock, *The Death of the Irreparable Injury Rule*, 103 Harv. L. Rev. 687, 704-706 (1990); *see also Cook* v. *Ernest*, 6 F. Cas. 385, 391 (C.C.D. La. 1872) (No. 3,155) ("If the rights of property so invaded were rights to land or other tangible estate, no court would hesitate for a moment to restrain the wrong-doer by injunction. The property in a patent is just as much under the protection of the law.").

adequate remedy, the well-established difficulty of proving and assessing damages for patent infringement—which often requires first determining whether lost profits or a reasonable royalty should be the measure, and then trying to determine what such a measure yields—strongly suggests that courts cannot reliably promise satisfactory compensation.[40] "[R]emembering the innumerable obstacles which beset a recovery of damages and profits, it must be conceded that an injunction is the only adequate remedy." *Carter & Co.* v. *Wollschlaeger*, 53 F. 573, 577 (C.C.N.D.N.Y. 1892).[41]

3. To the extent the balance of hardships is relevant in patent infringement cases, it will rarely favor the infringer. There may be unusual circumstances in which an injunction will cause extraordinary hardship far out of proportion to any harm caused by the infringement. But the "harm" to an infringer included in any balance of hardships surely may not include mere deprivation of the economic benefits of infringing. An adjudicated infringer "is not entitled to consideration if what [it wishes] to do is infringement under the law, for to prevent [it] from doing that is the whole purpose of the suit." *Hughes Tool Co.* v. *Owen*, 123 F.2d 950, 953 (5th Cir. 1941); *see also* Dobbs, *supra* n.33, § 2.4(5), at 110-111 (hardships to the defendant that are inseparable incidents of

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[40] Attempts to determine a reasonable royalty frequently make reference to a complex, multi-factor test set forth in *Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd sub nom. Georgia-Pacific Corp.* v. *U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2d Cir. 1971). *See, e.g., Interactive Pictures Corp.* v. *Infinite Pictures, Inc.*, 274 F.3d 1371, 1385-1386 (Fed. Cir. 2001). The complicated economic analyses required to estimate lost profits, frequently requiring a determination of market share and questions of price erosion, tend to be no simpler. *See Grain Processing Corp.* v. *American Maize-Prods. Co.*, 185 F.3d 1341, 1350 (Fed. Cir. 1999); *see generally* 3 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 705c (2004) ("[C]ompulsory licensing places the court in the position of price regulator—a task for which it is very poorly suited.").

[41] *See also Phillips* v. *Crown Cent. Petroleum Corp.*, 602 F.2d 616, 630 (4th Cir. 1979) ("A future injury of uncertain date and incalculable magnitude is irreparable harm[.]").

the plaintiff's right are not properly considered in equity). And when, as in this case, the infringement was willful from the start and the infringer has insisted that an inexpensive "design-around" is available, the infringer has no interests to be placed in the balance of hardships.[42] In this respect, patent law is no different from case law involving continuing trespass and encroachments on land, where the willful encroacher has no claim on the Chancellor's conscience.[43]

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[42] *See Windsurfing Int'l*, 782 F.2d at 1003 n.12; *Patent Law Reform: Injunctions and Damages, Hearing Before the Senate Comm. on the Judiciary*, 109th Cong. (2005) (testimony of Prof. Mark A. Lemley) ("[I]n most cases there will be no question as to the patentee's entitlement to such relief": *e.g.*, "in cases of willful infringement.") *available at* http://judiciary.senate.gov.; Ross, *supra* n.25, § 11.03[5], at 11-34 to 11-35 ("A willful infringer [of a copyright] cannot complain of the harm that will befall it when properly forced to desist from infringing activities.").

[43] *See, e.g.*, 5 John Norton Pomeroy & John Norton Pomeroy, Jr., *Pomeroy's Equity Jurisprudence and Equitable Remedies* § 1922, at 4362-4634 (4th ed. 1919) (injunction will issue as to willful encroachment without balancing hardships); Laycock, *supra* n.36, at 402, 406 (where encroachment is intentional, courts have refused to balance the equities and have granted injunctions regardless of the relative hardships); *United States* v. *Marine Shale Processors*, 81 F.3d 1329, 1359 (5th Cir. 1996) (noting traditional equitable principle that courts need not balance hardships when defendant's conduct has been willful derives in part from encroachment cases); *Louis W. Epstein Family P'ship* v. *KMART Corp.*, 13 F.3d 762, 769-770 (3d Cir. 1994) (district court did not err in refusing to consider hardship to defendant who willfully infringed easement); *Burke* v. *Voicestream Wireless Corp.*, 87 P.3d 81, 87 (Ct. App. Ariz. 2004) (defendants knowingly constructed cellular telephone tower in violation of restrictive covenant and are not entitled to claim hardship from its compelled removal); *Kratze* v. *Independent Order of Oddfellows*, 442 Mich. 136, 145 n.10 (1993) (where encroachment is intentional or willful, injunction will ordinarily issue regardless of the hardship to defendant); *Waterbury Trust Co.* v. *GLD Realty Co.*, 199 A. 106 (Conn. 1906) (one whose rights in realty have been willfully invaded is entitled to have the original condition restored by injunction, even though the wrongdoer thereby suffers great loss); *cf. Arnold* v. *Melani*, 449 P.2d 800, 805-806 (Wash. 1969) (mandatory injunction for removal of encroachment could be withheld as oppressive where defendant did not act willfully or in bad faith). Moreover, this is not a case in which the defendant's "structure" encroaches mere inches over the property line; petitioners have in effect occupied the entire parcel.

4. Finally, to the extent the public interest is relevant, it generally will also favor the patentee. An injunction serves the public interest by protecting the value of patent rights that Congress has chosen to provide, thereby encouraging the creation, development, disclosure, and commercialization of new and nonobvious inventions. *See* p. 20, *supra*. Indeed, public policy in favor of a meaningful "right to exclude" is embodied not only in the Patent Act, but also in the Constitution's Patent Clause, which explicitly contemplates use of "exclusive Right[s]" "[t]o promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8.

Such authoritative indicators of the public interest favoring injunctions can only be overcome by an exceptionally strong showing of public interest on the other side. The public interest will rarely favor affording general public access to an invention even if that access must be paid for (in effect, the consequence of denying injunctive relief). The entire patent system is based on the premise that the patent holder, not any branch of government, should be empowered to decide who may or may not practice the invention. Federal courts have no roving commission to determine which inventions are so important that they cannot be withheld from either the public or an individual. Congress has addressed specific situations where a public interest counter to the grant of an injunction might exist—for example, cases involving a medical emergency or an environmental or governmental interest.[44] Consequently, although the Federal Circuit rightly anticipates that situations might arise in which the public interest calls for a court to use its discretion to deny a permanent injunction, it also rightly recognizes that such circumstances will be rare. *See* Pet. App. 26a.

In sum, irreparable harm and lack of an adequate legal remedy follow naturally from a patent's grant of a unique

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[44] *See* 35 U.S.C. § 287(c) ("medical practitioner" exemption); 42 U.S.C. § 1857h-6 (Clean Air Act); 42 U.S.C. § 2183 (Atomic Energy Act); 28 U.S.C. § 1498 (government use); *cf.* 7 U.S.C. § 2404 (Plant Variety Protection Act).

property right in an invention. Because the public interest presumptively favors enforcing this right, and because the harm that an injunction may cause the infringer commonly does not extend much beyond loss of the benefits of infringing, the Federal Circuit correctly observed that, as a "general rule," "a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a.

II. THE FEDERAL CIRCUIT RIGHTLY RULED THAT THE DISTRICT COURT ABUSED ITS DISCRETION IN DENYING A PERMANENT INJUNCTION

Whatever "test" appropriately governs the availability of a permanent injunction as a remedy for patent infringement, it is clear that the Federal Circuit correctly ruled that an injunction should issue here, and that the district court abused its discretion in ordering otherwise. The district court offered several reasons why, it believed, this case was not the "norm," but instead "atypical" and "highly unusual." Pet. App. 56a, 59a. The Federal Circuit methodically reviewed these reasons and rightly concluded that they were not "persuasive" because they were illogical, clearly unreasonable, or irrelevant to the pertinent equitable factors. *See id.* at 26a-28a. In other words, the Federal Circuit correctly ruled that the district court had abused its discretion.

It bears emphasis that this is not a case of an innocent or one-time infringement. As the jury found, petitioners' willful and continuing infringement has been "clearly established." *Id.* at 35a.[45] And where infringement has been willful from the start, the presumption of irreparable harm that arises from infringement of a valid patent generally cannot

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[45] Here there is no question that petitioners' infringement was knowing and deliberate from the start. The jury found by clear and convincing evidence that petitioners knew of the '265 patent and thus had a duty to avoid infringing it, but that petitioners failed to act in good faith to avoid such infringement. Tr. 3519, 3546-3547. Indeed, petitioners tried to buy the patent before they commenced infringement, and they deliberately chose to begin infringing when they could have, by their admission, avoided infringement with a simple and inexpensive design-around.

be counterbalanced by any showing of harm that an injunction will cause the defendant. *See* pp. 31-32, *supra*; *see also, e.g., United States* v. *Marine Shale Processors*, 81 F.3d 1329, 1359 (5th Cir. 1996) (noting "traditional principl[e] of equity" that a court need not balance hardships when defendant's conduct has been willful); *EPA* v. *Environmental Waste Control, Inc.*, 917 F.2d 327, 332 (7th Cir. 1990) (same). The district court abused its discretion, therefore, by considering the "balance of hardships" between the parties in this case.

In any event, petitioners and their *amici* have not identified any equitable harm that petitioners would suffer from an injunction. Indeed, eBay continues to tell the investing public that "any injunction that might be issued [in this case] will not have any impact on [eBay's] business" (*see* n.8, *supra*), and, at trial, eBay argued that it could avoid infringement of the '265 patent by a "design around" that would cost less than $10,000. JA 865, 862-863.[46] Nor do any of the other reasons the district court gave for denying a permanent injunction withstand scrutiny.

1. Willingness To License. The district court reasoned that MercExchange's "willingness to license" its patents in the past suggested that "money damages are an adequate remedy to compensate" MercExchange "for any continuing infringement" of the '265 patent. Pet. App. 54a-55a.

This is an extraordinarily strange rationale—that a property owner is, in effect, estopped from standing on its right to exclude the world merely because it has authorized specific use of its property by a few others in the past. If the argument had arisen in a context other than patent law, it would hardly be given a hearing; no one would suggest, for example, that merely because a landowner had allowed a few persons to walk across his property, or had invited a guest to

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[46] If anything, as the district court found, eBay's failure to adopt this allegedly "simple, inexpensive" work-around, which "would have saved the time, expense, and necessity for this litigation," should weigh against eBay in the equitable balance. Pet. App. 35a.

enter his home, he should be precluded from seeking to enjoin everyone else from doing so.

Moreover, in patent situations, such a license is generally not a simple on-off switch. As MercExchange's license with AutoTrader demonstrates, licenses can include multiple significant terms that go beyond a mere exchange of money for the right to use the invention. *See* JA 493-512. The value of such terms—and, more certainly, the ability to set them—are commonly not replicable by a simple award of money.

Petitioners contend that the "right to exclude" cannot be used to justify an injunction where the inventor "merely" licenses her invention, because the Federal Circuit has held that "[a]ll or part of the right to exclude may be waived by granting a license." Br. 26 (quoting *Carborundum Co.* v. *Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995)). Of course, the right to exclude is waived as to a licensee, but it is not thereby waived as to any stranger who may want to steal one's invention. Long-established precedent—including this Court's decision in *Continental Paper Bag*—and 35 U.S.C. § 271(d) make clear that patents are enforceable by non-users and licensors.[47] And it was particularly illogical for the district court to rule that willingness to license is an indication that the patentee no longer has an interest in the right to exclude: MercExchange was willing to license its invention to eBay to build a business relationship, but eBay declined that opportunity and decided to infringe instead. *See* pp. 3-4, *supra*. It cannot be correct

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[47] The district court erroneously relied on a reference to "'lack of commercial activity'" in *High Tech Medical Instrumentation, Inc.* v. *New Image Industries, Inc.*, 49 F.3d 1551, 1556 (Fed. Cir. 1995), to justify a user-licensor distinction. Pet. App. 54a-55a. But *High Tech*, like another case petitioners cite (Br. 31), *T.J. Smith & Nephew Ltd.* v. *Consolidated Med. Equip., Inc.*, 832 F.2d 646 (Fed. Cir. 1987), involved a preliminary injunction motion, for which irreparable harm analysis is different. *See* n.54 & accompanying text, *infra*. Moreover, in *High Tech*, 49 F.3d at 1556, the court found a "lack of commercial activity" only because the patentee neither made, nor sold, *nor licensed* its invention—a far cry from this case.

that MercExchange's willingness to license should count against it, whereas eBay's willful refusal to license, plus its willful infringement, should not seem to count at all.

Discrimination against licensors in providing final relief is also contrary to patent policy. Patent licensing is critically important in promoting both innovation and competition.[48] Innovation is commonly incremental and cumulative, and the willingness of early patent holders to license their inventions can therefore significantly affect incentives and opportunities for subsequent research and innovation.[49] For complicated systems involving numerous components, patent licensing can facilitate the integration of various technologies, thereby producing efficiencies and lower costs. In addition to providing royalty rewards for inventors, licensing can increase use of patented technologies by the inventors themselves: in the absence of licensing, a patent holder may not have the capital to exploit her invention, or exploitation may be thwarted by a "blocking" situation, in which a patent owner cannot use its own invention because that invention incorporates technology patented by another. *See generally* Adam Hemlock & Jennifer Wu, *U.S. Antitrust Implications for Patent Licensing*, 52 Fed. Lawyer 39, 40 (2005).

Our patent system therefore recognizes that licensing should be encouraged. *See* FTC Report, ch. 1, at 24-25. The district court's approach, however, would deter inventors from licensing their inventions because licensing would decrease the likelihood of being able to enforce patent rights via injunctions. The results would likely be increased patent suppression or, with the trade-secret approach to idea protection becoming relatively more desirable, failure to obtain patents (and to disclose inventions) at all.

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[48] *See, e.g.*, National Res. Council, National Academies, *A Patent System for the 21st Century* 26-27, 31 (Stephen A. Merrill et al. eds., 2004) ("*National Academies Report*"); FTC Report, ch. 1, at 14, 22-25.

[49] *See National Academies Report* 35.

A second deleterious effect of the district court's rule would be significant erosion of the value of patent licenses. The patentee's ability to negotiate a license frequently rests on both need for the invention and the prospect of an injunction to prevent non-licensees from practicing the invention. If the prospect of an injunction is removed, potential licensees may be deterred from licensing the invention because the patentee has no way to stop non-licensees from freely infringing. *See, e.g.*, JA 493-512 (licensee would pay royalties only if patent holder could bring a halt to infringing activities). The more valuable the invention is, the greater this free rider problem is, and the greater is the need for legal protection to prevent it. "Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research." *Smith Int'l* v. *Hughes Tool Co.*, 718 F.2d 1573, 1577-1578 (Fed. Cir. 1983).

The fact that a permanent injunction would likely give a patent holder "leverage" in subsequent licensing negotiations should not weigh against the patent holder in the equitable analysis. That "leverage" is what Congress, by providing a "right to exclude," 35 U.S.C. § 154(a)(1), meant for the patent holder to have. *See Brulotte* v. *Thys Co.*, 379 U.S. 29, 33 (1964) ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly."). It is petitioners' position—not the courts' long-established "general rule"—that would upset Congress's statutory scheme by artificially limiting the availability of injunctive relief, thereby significantly reducing the value of the patent and its ability to promote innovation.

2. Concern About Business Method Patents. Although the district court acknowledged that the public interest usually favors the patentee, the court concluded that, in this case, the public interest in enforcing valid patents was counterbalanced by a "growing concern over the issuance of business method patents." Pet. App. 57a. The court noted that the PTO gives special scrutiny to applications for

business method patents, and that legislation had been introduced that would have eliminated the presumption of validity for such patents. *See id.* at 57a-58a.

As the Federal Circuit concluded, a generalized concern about business method patents is not a legitimate counterweight to the public interest in the patent system's integrity. The '265 patent was found valid, and the district court had no warrant to place it in a disfavored class of inventions.[50] To the extent business method patents might be problematic, that problem can and should be addressed by Congress and the PTO,[51] rather than by judicial intervention "to curtail the established rights of patent holders" on a broad scale. *E.g.*, Carl Shapiro, *Patent System Reform: Economic Analysis and Critique*, Berkeley Tech. L.J. 1017, 1026-1027 (2004). Indeed, the fact that Congress considered but *never enacted* legislation that would have eliminated the presumption of validity for business method patents reinforces the court's error in making purported concern over such patents a counterweight to the public interest in enforcing a patent holder's "right to exclude."

Nor, contrary to petitioners' argument (Br. 13), is the pending reexamination of the '265 patent relevant here. That reexamination was not a factor in the district court's decision and is not properly before this Court. Moreover, any rule that gives weight to the pendency of a reexamination would only encourage infringers routinely to launch a second, administrative front in patent litigation after a jury

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[50] The district court's reliance on apparent suspicion of business method patents is particularly ironic because the '265 patent is one for a system—an electronic market—rather than a method. *See* p. 1, *supra*.

[51] Congress and the PTO have already taken such steps. The PTO has implemented the stricter review procedures to which the district court adverted. Pet. App. 57a-58a. Congress has enacted a special defense for those who began commercial use of a business method "in good faith" before the patent's "effective filing date." 35 U.S.C. § 273(b)(1). Even if the '265 patent were a method patent subject to § 273, *but see* n.50, *supra*, eBay, a willful infringer that began infringing the '265 patent long after its filing date, would be doubly disqualified from this defense.

verdict of infringement. In this very case, eBay requested a reexamination of the '265 patent only *after* it had been found liable for willful infringement in the district court and while its appeal to the Federal Circuit was pending, in an obvious attempt to avoid the consequences of having been found in willful infringement of MercExchange's patent.[52]

3. Non-Practice. The district court suggested that an injunction against eBay's infringement was not warranted because MercExchange "does not practice its patents, nor has any intention of practicing its patents." Pet. App. 57a. That conclusion was an abuse of discretion on several counts. MercExchange is not suppressing its invention. It had every intention to "practice" its patents; after the '265 patent issued, Woolston and MercExchange tried for several years to commercialize the '265 patent, and raised capital and hired programmers to this end. *See* p. 3, *supra*. Although MercExchange today only licenses its inventions, licensing is not "non-practice." For all relevant purposes, licensing constitutes "use." *Cf. Continental Paper Bag*, 210 U.S. at 427-428 (patentee "never attempted to make any practical use of [the patent], either itself or through licenses."). If injunctive relief could be denied to small companies or individuals because they license their inventions after failing in efforts to build a business directly practicing them, there would be substantially less incentive for them to innovate, patent, and try to commercialize their inventions.

4. Possible Contempt Proceedings. The district court suggested that granting the injunction would result in "contempt hearing after contempt hearing" at great cost to the parties and judicial resources. Pet. App. 59a. The court evidently believed it would be more appropriate to require MercExchange to bring a new, full-scale action for damages every time it uncovered evidence of infringement by petitioners. This rationale is severely flawed. It defies equity to

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[52] eBay's request for reexamination of the '265 patent, dated March 8, 2004—some 9 months after trial—may be found at http://www.uspto.gov/web/offices/com/sol/og/2004/week15/patreq1.htm.

believe that a threat of contempt proceedings for violating an injunction should weigh in an adjudged infringer's favor. After all, the extent to which there will be further proceedings is almost entirely in petitioners' hands. According to petitioners, in addition to the option of licensing the invention, they have available a simple, inexpensive work-around to make their system non-infringing. JA 865-866.

There is no legitimate reason to put the burden on the innocent patentee to bring successive actions to determine whether petitioners, adjudicated willful infringers, have ceased infringing. Injunctions serve equity by deterring irreparable harm, and they deter because they are backed by the court's contempt power. *See* Owen M. Fiss & Doug Rendleman, *Injunctions* 1004 (2d ed. 1984) ("Contempt makes injunctions work."). To make the basis for deterrence a source of equitable hardship turns equity upside down.[53]

5. Failure To Seek a Preliminary Injunction. The district court relied on MercExchange's failure to move for a preliminary injunction to conclude that denial of a permanent injunction would not cause irreparable harm. Pet. App. 55a. This reasoning does not withstand scrutiny. A preliminary injunction is an especially extraordinary remedy. The standard for granting preliminary injunctions in patent cases has been characterized as "unusually stringent." *Smith Int'l*, 718 F.2d at 1578. That stringency is appropriate because preliminary injunctions preserve the *status quo* before parties' rights have been adjudicated: at that stage, it is uncertain whether the plaintiff deserves any remedy. Moreover, "irreparable harm" has a different meaning at the preliminary injunction stage than at the permanent injunction

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[53] Petitioners' expressed concerns about being found in contempt for infringing MercExchange's patents are overblown. Enjoined infringers have substantial protection against charges of contempt. The Federal Circuit has carefully enforced the specificity requirement for injunctions in Fed. R. Civ. P. 65 to "reliev[e] parties from the burden of adjudicating unwarranted contempt proceedings." *Additive Controls & Measurement Sys.* v. *Flowdata, Inc.*, 986 F.2d 476, 480 (Fed. Cir. 1993).

stage. At the preliminary stage, the only "harm" that matters is harm that the movant suffers during litigation that cannot be adequately remedied after final judgment; if the injury can ultimately be remedied by a permanent injunction plus damages, then there may not be a need for an interim injunction.[54] For these reasons, preliminary injunctions "are not routinely to be granted," *High Tech*, 49 F.3d at 1554, and are often denied even in cases where a permanent injunction is awarded after a patentee prevails on the merits, *see Lermer Germany GmbH* v. *Lermer USA, Inc.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996); *see also* Laycock, 103 Harv. L. Rev. at 732 (preliminary injunctions often denied even where the injury is by definition irreparable and permanent injunctions are "routinely" granted).

The district court's reasoning would also have deleterious consequences for the conduct of litigation. It would signal to patentees that they must generally seek a preliminary injunction to preserve their right to an injunction after final judgment. Such a requirement would needlessly complicate patent cases by compelling a preliminary airing of all central issues in the case, from claim construction to prosecution history estoppel to patent validity. Patent cases are complex enough when each issue is tried once; it would be to no one's benefit that they be tried twice.

Petitioners try to bolster the district court's reasoning by portraying MercExchange's decision not to move for a preliminary injunction as a form of laches that should cut against its call for a permanent injunction. *See* Br. 15 (MercExchange "delayed two years before seeking any form of injunctive relief"). This argument misrepresents the record and the law. First, MercExchange did not delay in seeking injunctive relief: its *initial complaint* requested a permanent injunction to enjoin continued infringement. C.A.J.A. A315; JA 84. Second, the equitable defense of laches arises

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[54] *See Walgreen Co.* v. *Sara Creek Property Co.*, 966 F.2d 273, 275 (7th Cir. 1992) (at preliminary stage, only harm "not rectifiable by" final judgment is relevant); *see also* Dobbs, *supra* n.33, § 2.11(2), at 253 n.2.

where a patentee unreasonably delayed in bringing suit. *See Gasser Chair Co.* v. *Infanti Chair Mfg. Corp.*, 60 F.3d 770, 773 (Fed. Cir. 1995). But there is no contention that MercExchange delayed in *bringing suit* for infringement, and, in any event, the complaint took away any potential claim that petitioners were later surprised by MercExchange's motion for a permanent injunction.[55]

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There is no important public interest that counsels against a permanent injunction in this case. Petitioners have not identified one, and logic suggests that continued availability of fixed-price sales on eBay is not the kind of significant public interest that could justify curtailing a patent holder's statutory rights. *See, e.g., Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1547-1548 (Fed. Cir. 1995) (citing cases). On the other hand, as the district court acknowledged (Pet. App. 56a), there is a strong public interest in issuing an injunction—the interest in protecting the patent system's integrity. Moreover, none of petitioners' (and their *amici*'s) parade of horribles regarding permanent injunctions is remotely applicable here. MercExchange is not a "patent troll" or any other kind of patent bogeyman. MercExchange did not buy the '265 patent in order to "hold up" eBay; its founder is the inventor, who both filed for his first patent before eBay existed and then tried to build a business to practice his inventions directly. *See* pp. 1, 3, *supra*. Merc-

[55] The district court also improperly relied on media reports, based on conciliatory remarks MercExchange made to the press, that MercExchange was seeking damages and was not seeking to "put eBay out of business." Pet. App. 54a n.13. Of course MercExchange was seeking damages; petitioners had willfully infringed the '265 patent since 2000, and there is no other remedy for past infringement. And whether or not it was seeking to put eBay out of business, MercExchange was certainly seeking to put eBay out of the business *of infringement*, as its prayer for injunctive relief in its complaint shows. Moreover, the award of damages MercExchange sought was, as its damages expert testified, designed only to address past infringement because "there would be an injunction" to stop future infringement. Tr. 2212.

Exchange did not try to extort money from eBay by threatening an injunction; MercExchange was willing to license its patent to eBay, but eBay preferred to steal it. And eBay has alleged no harm from an injunction that should count in any balance of hardships. *See* pp. 31-32, 34-35, *supra*.

In the Federal Circuit, this case presented the concrete question whether the district court abused its discretion by refusing to enjoin adjudicated willful infringers when there were no legitimate interests—public or otherwise—justifying a permanent injunction's denial. Because any reasonable analysis of the relevant equitable factors leads to a conclusion that an injunction should issue, the Federal Circuit's decision should be affirmed.

III. THERE IS NO REASON TO REVISIT THIS COURT'S PRECEDENT ON THE STANDARD FOR ENTERING A PERMANENT INJUNCTION IN PATENT CASES

In *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908), this Court made clear that a permanent injunction could be granted despite the patent holder's complete non-use of the patented invention, and indicated that injunctive relief was the only way to protect the exclusive rights "which the law confers upon the patentee."[56] *Continental Paper Bag* was essentially about whether complete failure to exploit a patented invention—*i.e.*, a patent holder's failure directly to use the invention or to license it to others—amounted to a form of patent suppression or misuse that should deprive the patent holder of access to equitable relief. That question has no relevance here. MercExchange attempted, albeit unsuccessfully, to commercialize its invention and has licensed its patent to others. As the facts of this case do not implicate the non-use issue, this case presents no real occasion to revisit *Continental Paper Bag*.

On the other hand, were this Court to reverse the Federal Circuit on the ground that denial of a permanent injunc-

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[56] The Court reserved room for a possible exceptional case in which the public interest might justify refusing equitable relief. 210 U.S. at 430.

tion was justified by MercExchange's failure to commercialize its invention directly, such a reversal would, in effect, require the Court to disavow the central reasoning of *Continental Paper Bag*. This Court should not depart from that reasoning or the century of precedent that has followed it. *Continental Paper Bag* interpreted a statutory provision that was reenacted without substantive change in the current Patent Act, and so *stare decisis* is a particularly powerful bar to its reconsideration. Further, petitioners have provided no reason to believe that the principles of *Continental Paper Bag* no longer reflect sound policy. Nor do they explain why this Court is the proper body to address policy concerns that have no basis in the facts of the present case.

A. *Stare Decisis* Is Particularly Forceful With Respect To *Continental Paper Bag*

Considerations of *stare decisis* are particularly forceful in situations like this one, where the Court's statutory interpretation has been accepted as settled law for an extended time. *See, e.g., IBP, Inc.* v. *Alvarez*, 126 S. Ct. 514, 523 (2005). Since *Continental Paper Bag*, Congress has not seen fit to impose a requirement that the patent holder practice, license, or otherwise "use" the invention. Congress has certainly not been ignorant of the non-use issue: some foreign countries had use limitations in their patent laws, and, from 1832 to 1836, Congress itself briefly imposed a use requirement on patents issued to aliens. *See* 210 U.S. at 429-430. Congress's choice not to include a use restriction for patents reflected its policy judgment "that the sciences and the useful arts could be best advanced by giving an exclusive right to the inventor." *Id.* at 429. Because this right can only be "retain[ed]" by preventing its violation, injunctive relief is available whether or not the patent holder chooses to "practice" or otherwise exploit the invention. *Id.* at 429-430.

This Court and the lower federal courts have followed *Continental Paper Bag* for almost a century. In so doing, this Court has repeatedly reaffirmed that the patent right is a right to exclude that carries no obligation on the patent holder to exploit the invention. Disclosure and the limited

duration of the patent grant—rather than a use requirement—are the means that Congress has chosen to "promote progress" in accordance with the Constitution. And this Court has declined to consider "whether a better rule governing the grant of patents could be devised than that prescribed by Congress, as this Court has interpreted it." *Special Equipment Co.* v. *Coe*, 324 U.S. 370, 379 (1945).[57]

Congress has rejected numerous efforts to overrule or narrow *Continental Paper Bag* by introducing a use requirement or regimes of compulsory licensing.[58] Furthermore, Congress's revisions to the patent law since *Continental Paper Bag* have only reinforced that decision. In the Patent Act of 1952, Congress reenacted and codified the patent laws. Congress did not take the occasion to impose any use requirement, and instead made unmistakably clear that the patent right is a "right to exclude" others from making, using, or selling the invention. 35 U.S.C. § 154 (1952). And

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[57] *See also Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 510, 514-515 (1917) (citing *Continental Paper Bag* and noting that "[i]t has long been settled" that the patent statute gives the inventor the right to exclude others from making, using, or selling the invention; the statute does not prevent the patent holder from withholding her invention from public use); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923) (citing "clearly established principles" from *Continental Paper Bag* that patent statute confers right to exclude others from making, using, or selling the invention; no use requirement in statute); *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 417 (1945) (reaffirming *Continental Paper Bag* and noting that the court cannot enforce a decree that would punish non-use); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (reaffirming *Continental Paper Bag* and noting that the essence of the patent right is the right to exclude); *Rite-Hite*, 56 F.3d at 1547 (affirming that the right to exclude is granted in consideration of the patentee's disclosure of the invention, not for the patentee's use of the invention).

[58] *See Hartford-Empire*, 323 U.S. at 417; *see also Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 197, 202 & n.21 (1980); *Special Equipment*, 324 U.S. at 378-379; Anthony P. Valach, Jr., *TRIPS: Protecting the Rights of Patent Holders and Addressing Public Health Issues in Developing Countries*, 4 Chi.-Kent J. Intell. Prop. 156, 181 (2005) (recent failure to provide for compulsory licensing of health-related inventions).

in 1988, Congress amended § 271(d) of the Act to confirm that a patent holder's complete non-use of a patent—failure to use or license it—does not constitute patent misuse. *See* 35 U.S.C. § 271(d)(4). Thus, even if the present case provided occasion to revisit *Continental Paper Bag*, this Court's long adherence to that precedent and Congress's acquiescence in and reaffirmation of that case's statutory interpretation mean that *stare decisis* has special force.

B. Patent Policy Supports The "General Rule" That Injunctions Should Issue When Infringement Is Found

Petitioners and their *amici* argue that the emergence of complex technologies counsels greater flexibility in enforcing patent rights via injunctions against large corporate enterprises, and decry the rise of "patent assertion companies" that, they argue, impede the legitimate exploitation of these technologies. *See, e.g.*, Br. of *Amici* Business Software Alliance et al. 12-18; Br. of *Amici* Time Warner, Inc. et al. 12-19; Br. of Yahoo! Inc. 5-11. Petitioners produce little evidence, however, to support these policy-based arguments. Nor have petitioners explained how problems raised by today's technologies differ in kind from those raised by complex and interoperable technologies of earlier eras—television, radio, the telephone, systems for electric light and for electricity generation and transmission, railroads, the airplane, and the automobile. *See Proceedings and Addresses: Celebration of the Beginning of the Second Century of the American Patent System, 1891*, at 121-127 (U.S. Bicentennial Commemorative ed., 1990) (describing "epoch making" inventions).[59]

This Court should be wary of adopting a dramatic response to a potentially nonexistent problem. The patent system may need improvement, but Congress is far better situated to survey, and to draw appropriate conclusions regarding, the complex interaction between patents and mod-

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[59] *Continental Paper Bag* itself involved a technology that had to be "interoperable" with others—a device that performed only part of the process of creating a portion of a paper bag. *See* 210 U.S. at 406.

ern technology. Congress has not shown a lack of interest in the patent system; over the past three decades, it has repeatedly acted to enhance and to stabilize the value of domestic patent rights by, for example, extending the range of acts that infringe, 35 U.S.C. § 271(f)-(g); creating a new court of appeals to bring greater certainty to patent law, *see* Dreyfuss, 64 N.Y.U. L. Rev. at 1-3; and making clear that non-exploitation of a patent does not sacrifice its enforceability, 35 U.S.C. § 271(d)(4). Last year Congress considered legislation that "would arguably work the most sweeping reforms to the U.S. patent system since the nineteenth century." Wendy H. Schacht & John R. Thomas, *Patent Reform: Innovation Issues*, CRS Report for Congress, at CRS-39 (July 15, 2005). In this vein, it was proposed that § 283 be amended to instruct courts to "consider the fairness of [an injunctive] remedy in light of all the facts and the relevant interests of the parties associated with the invention." H.R. 2795, 109th Cong. § 7 (2005). It would seem strange for this Court, under the guise of respect for Congress, to alter a long accepted interpretation of § 283 partly on the ground that Congress itself has declined to amend that section.

Policy arguments based on the rise of "non-practicing entities," "patent assertion companies," or "patent trolls" are also properly directed at Congress, not the courts. First, it is not clear that such entities are harmful to patent law's purpose. Even the most unsightly "troll" may "promote progress" by acting as a kind of patent arbitrageur, allowing inventors to sell rights to those having the means or knowledge to exploit them. Ronald Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 Tex. L. Rev. 961, 1024 (2005); *see also* Br. of *Amici* Rembrandt IP Management, LLC et al. 5-11. Although a large-company infringer may be discomfited when sued by a small-entity patentee that it cannot threaten with a patent countersuit, that hardly

proves that injunctive relief for the small entity does not conform with equity or "promote progress." *See id.*[60]

Second, because virtually all patent holders are "non-practicing" to some degree, it is difficult to determine who the problematic "trolls" are.[61] Patents generally include multiple distinct claims and are often parts of "families" of related patents. Even a patent holder that directly practices some claims of some of its patents is likely to be "non-practicing" with respect to others. Further, distinguishing between licensors of patents on the basis of whether they license exclusively (apparently upstanding behavior) or whether they license non-exclusively (apparently "troll-like" behavior) makes no sense: courts should not adopt an equitable rule that disfavors those who license freely. *United States* v. *Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1137 (D.C. Cir. 1981) ("We should hesitate before we impose a legal rule that would force a patentee to follow the more anticompetitive route of a single exclusive license."); *see also* Br. of *Amici* Rembrandt et al. at 11-18.

As petitioners and their *amici* point out, several recent studies have suggested improvements in the patent system. Virtually all of those studies, however, have focused on improving patent quality—*i.e.*, the merit and value of patents and their disclosures—rather than weakening patent rights. *See, e.g.*, FTC Report, Exec. Sum. 1-18 (advising various reforms without suggesting reducing the availability of per-

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[60] Moreover, large-company infringers are unlikely to be helpless: they have historically had great negotiating leverage through advantages in technical and legal knowledge, business savvy, or resources to endure litigation. *See* John C. Stedman, *Invention and Public Policy*, 12 Law & Contemp. Probs. 649, 660 (1947) ("[A] powerful infringing corporation may make it virtually impossible for a patentee without substantial resources to establish the validity and infringement of his patent.").

[61] Petitioners' *amici* appear willing to exempt various entities, including universities, government laboratories, and corporations like the *amici* from the status of "trolls." But it is difficult to justify the lines they draw as ones of principle, rather than convenience. *See* Mann, 83 Tex. L. Rev. at 1023-1024 ("status as a troll is in the eye of the beholder").

manent injunctions). Whatever merit such proposals have, they have nothing to do with this case, which is hardly an appropriate vehicle to rectify the patent system's ills.

In sum, this Court should avoid seeking to implement a policy "fix" where problems are rarely simple or discrete, and where the policy arena itself is undergoing substantial change. Congress has set the terms of the patent bargain: "rights to exclude" in exchange for disclosure. For centuries, courts have correctly understood that injunctions should ordinarily issue to enforce that bargain's terms. Congress should decide whether and how the "general rules" that regulate the patent bargain should be altered.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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INTRODUCTION AND SUMMARY OF ARGUMENT

The sixteen briefs of respondent and its *amici* devote very few pages to defending the stated permanent injunction test used in the decision below and, indeed, in twenty years of Federal Circuit case law. The Federal Circuit's erroneous approach cannot be rehabilitated in this case as a correct application of the abuse-of-discretion standard of review to the traditional four-factor test.

MercExchange and its *amici* do not dispute that, under the four-factor test, an injunction may *not* issue if the trial court reasonably finds that the plaintiff will not suffer "irreparable injury" and has "an adequate remedy at law." Pet Br. 34-35. Such a reasonable finding ends the matter. Respondent does not point to one fact about this case that suggests that, absent an injunction, it will be irreparably injured, or lack an adequate legal remedy.

The district court reasonably found that the Federal Circuit's (erroneous) presumption of irreparable harm was rebutted based on three facts that a trial court is in the best position to assess. *First*, an injunction would not prevent unnecessary, multiple litigation because new "separate infringement *trials*" would still be necessary to determine "if the changes to defendants' system" infringe MercExchange's undisputedly amorphous patent. Pet. App. 58a-59a (emphasis added). Far from denigrating respondent's right to exclude, or requiring respondent to give eBay a compulsory license, the district court stated that it was likely "to award enhanced damages" if eBay's "new systems" were found to infringe. *Id.* at 59a. *Second*, if eBay's work around is proven to be a new infringement, MercExchange's injury will be solely monetary as it exists only to license, does not commercialize its patents, said it was only seeking damages, and confirmed that by not seeking a preliminary injunction. *Id.* at 54a-56a. *Third*, any monetary injury to MercExchange during the attempted work around could be readily remedied under 35 U.S.C. § 284, which provides that "the court *shall* award the

claimant damages *adequate* to compensate for the infringement.'" 35 U.S.C. § 284 (emphases added); Pet. App. 59a (finding that "the plaintiff will certainly be compensated"). MercExchange's own experts stated that their damages method captured "the total economic value of the resulting reasonable royalty that is *adequate* to fairly compensate MercExchange for the defendant's infringement." Fed. Cir. App. A27601 (emphasis added).

Instead of basing their arguments on the facts reasonably found by the district court, MercExchange and their *amici* argue that patentees "generally" show irreparable injury and an inadequate remedy at law. But the discretionary four-factor test embodied in 35 U.S.C. § 283 is the antithesis of a "one size fits all" rule. *Other* patentees will sometimes need an injunction to prevent unnecessary, multiple litigation. For example, in a garden-variety case of intentional copying, an injunction is obviously proper because a work around is neither planned nor plausible. *Other* patentees sometimes will suffer a non-monetary injury. For example, a manufacturer might want to exclude any competing product from the market. But none of this applies to the facts of this case as found by the district court.

It cannot be an abuse of discretion to find, based on the facts of this case, a lack of irreparable injury and that damages would be an adequate remedy. The damage to patent cases from twenty years of the Federal Circuit's near-automatic injunction rule has been bad enough. That damage should not be expanded by neutering the discretionary four-factor test that is central to myriad areas of the law.

ARGUMENT

I. 35 U.S.C. § 283 REQUIRES APPLICATION OF THE FOUR-FACTOR TEST.

The United States agrees that the "familiar four-factor test set out in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305

(1982)" "provides the appropriate framework for disciplined evaluation of the special considerations that apply to patent claims"; that "[t]he decision whether injunctive relief is appropriate must necessarily turn on the facts of each case"; and that appellate courts review the application of the four-factor test for "abuse of discretion." U.S. Br. 9.

Remarkably, MercExchange never directly states its position on whether 35 U.S.C. § 283 requires application of the four-factor test. Instead, MercExchange obliquely defends the Federal Circuit's approach as a "*general* rule that a permanent injunction will issue once infringement and validity have been adjudged." Resp. Br. 15. But, as the Solicitor General succinctly explains, "[c]onstrued as enunciations of the governing legal rule, [the Federal Circuit's] statements would be erroneous: no 'general rule' mandates injunctive relief in patent cases." U.S. Br. 12.

Ignoring that this case involves injunctive relief, MercExchange first defends the Federal Circuit's "general rule" by citing cases interpreting civil rights statutes giving courts discretionary authority to award backpay and attorneys' fees. Resp. Br. 15-16. *Albemarle Paper Co.* v. *Moody*, 422 U.S. 405 (1975), required backpay under Title VII because that remedy is necessary to deter employment discrimination and, like damages, serves a compensatory or "make whole" purpose. And, *Newman* v. *Piggie Park Enterprises*, 390 U.S. 400 (1968), held that attorneys' fees should ordinarily be awarded to prevailing civil rights plaintiffs, because the public interest required such plaintiffs to act as "private attorney[s] general." *Id.* at 402. None of these justifications is remotely applicable to the granting of *injunctions* under the Patent Act, which is primarily addressed to private commercial relations, expressly requires "adequate" compensation for infringement, 35 U.S.C. § 284, and confines attorneys' fees to "exceptional cases." *Id.* § 285.

MercExchange next claims that this Court's cases applying the four-factor test do not undermine the "general rule"

because they hold only that "irreparable harm cannot be presumed from the bare violation of a statute where none of the harms the statute was designed to prevent have occurred." Resp. Br. 16. These decisions cannot be cabined in this way. *Romero-Barcelo*, for example, instructed district courts to consider the four factors even though the defendant was discharging munitions into the water. 456 U.S. at 312-13. Respondent cites no decision rejecting the four-factor test for a statute that grants discretionary authority to issue injunctions.

That leaves MercExchange with a weak defense of the Federal Circuit's "general rule" as a descriptive observation that patentees are often entitled to injunctive relief. A "general" trend, however, by definition admits there are counter-examples.[1] Moreover, Respondent's "general rule" originated in the application of the four-factor test to patents of a materially different type in a different era—*i.e.*, before business method patents and NPEs existed. The Federal Circuit did not recognize business method patents until 1998, *State Street Bank & Trust Co.* v. *Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375-77 (Fed. Cir. 1998), and NPEs are also a recent development. See Richard A. Posner, *Do We Have Too Many Intellectual Property Rights?* 9 Marq. Intell. Prop. L. Rev. 173, 184-85 (2005) ("In the old days, such ideas would have been thought non-patentable, would have been considered the kind of normal business innovation that is driven by incentives that did not depend on propertization. A number of what would have in the olden days been thought dubious improvements in business methods have been granted patents .... This kind of business strategy [by NPEs] creates impediments to inventions.").

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[1] Nor can MercExchange correctly claim that "Congress ... acquiesced in the 'general rule'" when it recodified Section 283 in 1952. Resp. Br. 27 & n.35. At that time, three circuit courts and a major, recent treatise applied the four-factor test to permanent injunctions in patent cases. Pet. Br. 46 & n.17, 28 (citing authorities).

Because the Federal Circuit froze its near-automatic injunction rule before these developments, it has never examined critically whether the factors that often favor injunctions for some patents inflexibly apply to all patents. The point is not that new types of patents or patentees are disfavored, but that they can differ in ways that, in some cases, have a significant impact on the four factors relevant to injunctive relief. District courts should have flexibility and discretion in applying the traditional test to these circumstances.

Indeed, that patent law has expanded vindicates Congress's determination to use the flexible, discretionary four-factor test. We agree with the Solicitor General that it is critical to returning patent law to its statutory moorings that this Court itself review the district court's application of the four-factor test.[2]

II. THE FEDERAL CIRCUIT'S DECISION CANNOT BE RESURRECTED UNDER THE FOUR-FACTOR TEST.

MercExchange argues that the Federal Circuit's decision is really an application of the abuse of discretion standard of review. Resp. Br. 19. Of course, the panel below did not even mention that standard of review or any of the four factors under the traditional test. This is because the Federal

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[2] All parties agree that *Continental Paper Bag Co.* v. *Eastern Bag Co.*, 210 U.S. 405 (1908), holds only that a district court may grant a patentee an injunction even if it has decided not to use or license its invention, and that this holding is not implicated by the facts of this case. *See* U.S. Br. 10; Resp. Br. 44. As demonstrated by Brief of *Amicus* Research In Motion, Ltd., at 17, the district court in *Continental Bag* easily had discretion under the four-factor test to issue an injunction.

Circuit has not applied the discretionary four-factor test to a permanent injunction since 1984. Pet. Br. 46 n.17.[3]

It would render the abuse of discretion standard meaningless if a reversal could be based on mouthing the words "legal error" or labeling the district court's reasons not "'persuasive.'" Resp. Br. 34-44 (citing Pet. App. 26a-28a). MercExchange and its *amici* do not cite any statutory provision or prior case that contradicts any of the reasons given by the district court in applying the four factors. *See id.* Absent legal error, MercExchange must make "a strong showing of abuse." *United States* v. *W. T. Grant Co.*, 345 U.S. 629, 633 (1953). It is insufficient to show merely that a different court could reach a different result, but rather MercExchange and "the Government must demonstrate that there was no reasonable basis for the District Judge's decision." *Id.* at 634. Neither MercExchange nor its *amici* come close.

A. The District Court Reasonably Found The Absence Of Both An Irreparable Injury And An Inadequate Legal Remedy: There is no dispute that absent irreparable injury and an inadequate legal remedy, a court may not grant an injunction under the four-factor test. Pet. Br. 34-35 (citing cases).[4] Here, the district court reasonably found that MercExchange could be adequately protected by damages, including enhanced damages for any infringement if eBay's work around proves to be infringing. Accordingly,

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[3] This is confirmed by respondent's exhaustive survey that could not find one Federal Circuit decision on a permanent injunction after 1984 that mentioned any of the first three factors. Resp. Br. 18-19 & nn. 16-20.

[4] Like MercExchange, we address irreparable injury and an inadequate remedy at law "as two sides of the same coin." Resp. Br. 28 n.36. Accordingly, throughout this section, references to irreparable harm include an inadequate legal remedy.

the district court's denial of an injunction should be upheld—irrespective of the other two factors.[5]

Like the Federal Circuit, MercExchange fails to show that any facts in this case would support a finding of irreparable harm. MercExchange instead argues that there should be a "presumption" of irreparable harm after a finding of infringement. Resp. Br. 17. But this Court has held that such a "presumption is contrary to traditional equitable principles." *Amoco Prod. Co.* v. *Village of Gambell, Alaska*, 480 U.S. 531, 545 (1987); see also *Rizzo* v. *Goode*, 423 U.S. 362, 378 (1976) ("Even in an action between private individuals, it has long been held that an injunction is to be used sparingly, and only in a clear and plain case."). MercExchange also ignores that when Congress wanted a presumption, it expressly provided one. See, *e.g.*, 35 U.S.C. § 282 ("A patent shall be presumed valid."). Section 283 of the Patent Act does not contain any presumptions.

Although the United States correctly acknowledges that it is improper to presume the existence of any of the four factors, U.S. Br. 17 n.13, it seriously errs by placing a burden on the defendant "to establish" the absence of irreparable harm. *Id.* at 24-25. This is a distinction without a difference. The *movant* must "satisfy the traditional prerequisites of extraordinary equitable relief." *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 61 (1975). When the Patent Act intended to shift a burden to the defendant, it did so expressly. See, *e.g.*, 35 U.S.C. § 295 (shifting to defendant "the burden *of establishing* that the product was not made by the process") (emphasis added). It did not do so in Section 283. In any event, if any presumption exists, it would be rebuttable. The

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[5] If this Court concludes that the district court committed a reversible error, the only appropriate remedy would be to instruct the Federal Circuit to remand to "the discretion of the district court" to reweigh the four factors, and not for the Federal Circuit to engage in a *de novo* consideration of those factors. *Mitchell* v. *Lublin, McGausky & Assocs.*, 358 U.S. 207, 215 (1959).

district court applied the Federal Circuit's presumption, and reasonably found that eBay overcame it. Pet. App. 53-54a. Indeed, the district court made reasonable findings that negate each of the three possible irreparable harms raised by MercExchange and its *amici*: (1) multiple litigation; (2) non-monetary injury; and (3) difficulty of assessing damages.

1. An Injunction Would Not Render Multiple Litigation Unnecessary: We begin with the issue of multiple litigation because, as MercExchange concedes, the "first expla[nation]" for injunctions in patent cases was to protect against the irreparable harm of "'the necessity of perpetual litigation.'" Resp. Br. 30 (quoting 2 Joseph Story, *Commentaries on Equity Jurisprudence* §§ 930-931, at 209-10 (1836)). MercExchange mischaracterizes the district court as ruling that "a threat of contempt proceedings for violating an injunction should weigh in an adjudged infringer's favor." Resp. Br. 41. But the district court reasonably found that, if an injunction were granted, the amorphous nature of MercExchange's patent guaranteed that the court would have to hold more than a contempt hearing. Specifically, the district court found that it would have to "conduct separate infringement *trials* to determine if the changes to the defendants' system violate the injunction. This will result in extraordinary costs to the parties, as well as considerable judicial resources. In fact, the court would most likely be required to retain an expert in the field to determine if the new systems infringe on the patent." Pet. App. 59a (emphasis added).

MercExchange cannot and does not challenge the district court's determination that, even with an injunction, a separate infringement trial would be necessary. A district court has "broad discretion" to determine "whether a contempt hearing is an appropriate forum in which to determine whether a redesigned device infringes, or whether the issue of infringement should be resolved in a separate infringement action." *Additive Controls & Measurement Sys., Inc.* v.

Flowdata, Inc., 154 F.3d 1345, 1349 (Fed. Cir. 1998). When "'substantial open issues' of infringement are raised by the new device, then contempt proceedings are inappropriate." *Id.* (citation omitted).

Although MercExchange premises all of its arguments on the assertion that eBay's "new systems", Pet. App. 59a, will "contin[ue] its infringement," Resp. Br. 28, that is precisely what the district court reasonably found it would take an additional "trial[]" to determine. Pet. App. 59a. Accordingly, because an injunction would not render multiple litigation unnecessary, or even shorter, what MercExchange concedes is the "first" basis for a patent injunction is unavailable in this case.

2. MercExchange's Potential Injury Is Solely Monetary.

A. MercExchange's principal contention is that the "nature" of the right to exclude supports a virtually irrebuttable presumption that a patentee will suffer some irreparable harm. Resp. Br. 28. This is incorrect.

The right to exclude recognized in 35 U.S.C. § 154(a)(1) does not exist in isolation. Although Congress has made the award of "adequate" damages mandatory for a violation of the right to exclude, *id.* § 284, it expressly made injunctive relief discretionary based on "the principles of equity." *Id.* § 283. Thus, in § 283, Congress itself balanced the various interests under the statute, including the "right to exclude," and eschewed a special rule favoring patentees. Instead, Congress used language in § 283 that gave district courts the broadest discretion. The balance struck by Congress in § 283 would be dishonored if § 283's grant of broad discretion were negated by abstract rhetoric about the right to exclude unconnected to the particular facts of the particular case. Pet. Br. 24-25 (citing cases).

Instead, § 283's grant of broad discretion means that a district court must look to the specific facts of each case to

determine if the patentee's interests will be irreparably harmed absent an injunction. As held in *Sampson* v. *Murray*, 415 U.S. 61 (1974)—a case ignored by MercExchange and its *amici*—"the key word in this consideration is irreparable. Mere injuries, *however substantial*, in terms of *money*, time and energy ... are not enough." *Id.* at 90 (emphases added).

MercExchange must therefore point to a non-monetary injury. But, as the district court reasonably found, MercExchange's potential injury if eBay's work around fails is solely monetary. Pet. App. 54a-56a.

The district court relied on four different facts—(1) MercExchange's "willingness to license its patents;" (2) "its lack of commercial activity in practicing its patents;" (3) its "numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages;" and (4) its decision not to seek a preliminary injunction. Each of these facts reasonably and logically supports the district court's finding that MercExchange's only injury would be monetary.[6] No facts were presented to the contrary.

First, as the United States concedes, "[a] patentee's willingness to license [is] not irrelevant to a district court's inquiries into 'irreparable harm.'" U.S. Br. 24. But that is exactly the way in which the district court used MercExchange's willingness to license—as one of a number of relevant facts showing that any future injury to MercExchange would be a monetary injury. Even the Federal Circuit has drawn the exact same permissible inference in preliminary injunction decisions. See, *e.g.*, *High Tech Med.*

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[6] The United States cites *Amoco* to suggest that an injury to a patent right is akin to other injuries, which by their very "nature" have "'irreparable consequences.'" U.S. Br. 16. But in *Amoco*, this Court merely observed that an "[e]nvironmental injury, by its nature, can seldom be adequately remedied by money damages." 480 U.S. at 545 (emphasis added). Environmental injury is not economic injury.

Instrumentation v. *New Image Indus., Inc.*, 49 F.3d 1551, 1557 (1995) (willingness to license "suggests that any injury would be compensable in damages").[7]

MercExchange asserts that the district court used MercExchange's willingness to license as "in effect, estopp[ing]" MercExchange from asserting its right to exclude. Resp. Br. 35. Likewise, MercExchange raises the spectre of "compulsory licensing." *Id.* at 21, 46. Both assertions are false. The district court stated that if eBay's "design around" failed, eBay would face the prospect of "enhanced damages for any post-verdict infringement." Pet. App. 58a-59a. That is an effort to vindicate MercExchange's right to exclude—the antithesis of an estoppel against MercExchange or a compulsory license. Indeed, MercExchange told the district court: "Awarding postjudgment enhanced damages ensures that infringers do not have an incentive to continue infringing." Fed. Cir. App. A62784.[8]

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[7] The United States hypothesizes a number of circumstances where a patentee-licensor might be irreparably harmed by an infringer, *e.g.*, where a patentee "promote[s] its own brands by requiring its licensees to display its trademarks." U.S. Br. 24-25. The United States does not contend that any of these hypothetical circumstances applies to this case.

[8] The Federal Circuit itself recognizes that denying a permanent injunction based on the fourth factor—public interest—does not create a compulsory license. Neither should basing denial on lack of irreparable injury. Thus, the United States' reference to international agreements barring certain compulsory licensing systems is inapposite. U.S. Br. 18 & n.17. For a more detailed response, see Br. of *Amici* 52 Intell. Prop. Law Profs. 10-11 ("TRIPs permits the United States to give its courts the power to deny injunctions in particular cases.").

MercExchange is also incorrect in speculating, citing a newspaper article, that eBay's alleged 80 percent gross "profit margin" is greater than treble damages. Resp. Br. 29 n.37. MercExchange's experts calculated damages equal to "approximately 30% of eBay's net income for fixed price sales." Fed. Cir. App. A38161:7-18. Trebling that is 90%—*i.e.*, more than MercExchange's speculation.

By ignoring the district court's warning about "enhanced damages," MercExchange offers a false choice often presented by those seeking injunctions. It pretends as if the choice is "whether enforcement is preferable to no enforcement at all." *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 498 (2001). In fact, the discretionary choice under 35 U.S.C. § 283 "is simply whether a particular means of enforcing the statute should be chosen over another permissible means." *Id.* at 497-98.

MercExchange also invokes 35 U.S.C. § 271(d)(4), Resp. Br. 36, but that provision supports the district court. Section 271(d)(4) provides: "No patent owner otherwise entitled to relief for infringement ... shall be denied relief ... by reason of his having ... refused to license." But the district court relied on MercExchange's "willingness to license," Pet. App. 59a, which is the polar opposite of a "refus[al] to license." MercExchange thus once again tries to rewrite the statute—to change "refused to license" to "*licensed or* refused to license." The omission of a statutory safe harbor for patentees that license indicates that Congress understood that a willingness to license can be a relevant factor in determining the appropriate relief for a given case.

MercExchange is ultimately reduced to arguing that the district court's approach would cause patentees to cease profitable licensing to improve their chances of winning in court "via injunctions." Resp. Br. 37-38. Of course, absent the laws against perjury and frauds on courts, any plaintiff in a business dispute could seek to exaggerate its injury by changing its business practices for concealed litigation purposes, rather than for business reasons. That is hardly an argument that it was unreasonable for the district court to rely on the fact that MercExchange "exists merely to license," Pet. App. 54a, as one fact showing that if eBay's work around

proves to be a new infringement, then MercExchange's injury would be solely monetary.[9]

Second, for similar reasons, the district court reasonably relied on MercExchange's "lack of commercial activity in practicing its patents." Pet. App. 55a. Such inactivity provided a reasonable check that the district court had not overlooked a non-monetary injury. Indeed, in the preliminary injunction context, the Federal Circuit has held that "the lack of commercial activity by the patentee is a significant factor" in rebutting "the patentee's claim of irreparable harm." *High Tech*, 49 F.3d at 1566-67.

Third, the district court reasonably relied on MercExchange's statements that "it did not seek to enjoin eBay but rather sought appropriate damages for the infringement." Pet. App. 54a. Although MercExchange tries to spin away from its own statements, Resp. Br. 43 n.55, the interpretation and weight given to a party's admissions are classic matters for the trial court's discretion.

Fourth, the district court reasonably relied on the plaintiff's decision not to seek a preliminary injunction. Pet. App. 55a. Without citation, MercExchange contends that "'irreparable harm' has a different meaning at the preliminary injunction stage." Resp. Br. 41-42. But that contradicts MercExchange's central argument that irreparable harm flows, without more, from the "nature" of the right to exclude. *Id.* at 28. Under 35 U.S.C. § 154(a)(1), it is the patent grant that creates the "right to exclude," not a jury verdict or judgment years later. Thus, MercExchange's decision, which made damages the sole remedy for the nearly two years between the complaint and the close of trial, confirmed that the harm to its "right to exclude" in that period was solely monetary. The district

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[9] By 1995, MercExchange had ceased any effort to commercially develop its patent, and had focused solely on licensing. JA 640-41, 732. It was not until 2000 that MercExchange believed eBay was infringing. JA 644-47, 681-82, 102-04; *see* JA 640-41.

court reasonably concluded that MercExchange's harm did not magically become a non-monetary injury the day after the verdict. Indeed, MercExchange reached the same conclusion, as it asked the district court to order that eBay would be liable for *post*-verdict "compensatory damages" measured by "the reasonabl[e] royalty rates determined by the jury." Fed. Cir. App. 62774, 62782.

B. MercExchange also cannot use the law of personal property as a substitute for evidence of irreparable harm. Resp. Br. 29. Even in personal property cases, a court must consider whether an injunction is proper on a case-by-case basis under the four-factor test. Pet. Br. 26-27 (citing cases); see also *United States* v. *Zenon*, 711 F.2d 476, 478 (1st Cir. 1983) (Breyer, J.) ("a court has [the] power to enjoin a trespass *if* it would cause irreparable injury") (emphasis added). Although a one-of-a-kind chattel such as an heirloom or antique is considered "unique," that label does not apply to property for which damages would be an adequate remedy. See 2 Joseph Story, *Commentaries on Equity Jurisprudence* § 709 (13th ed. 1886) (injunctions will issue only with respect to personal property "which could not be replaced in value").

3. MercExchange's Monetary Injury Could Be Calculated In Damages: The district court found that "the plaintiff certainly will be compensated for any actions by the defendants in the absence of an injunction." Pet. App. 59a. MercExchange argues that the district court abused its discretion in failing to find that its monetary injury was irreparable because of the "well-established difficulty of proving and assessing damages for patent infringement." Resp. Br. 31. This newly minted argument was never made to the district court or the Federal Circuit.

It is also contradicted by MercExchange's own proof. Monetary injury can be irreparable harm in only the rare case where "the ascertainment [of damages] is impossible, or nearly so." *Caddy-Imler Creations, Inc.* v. *Caddy*, 299 F.2d 79, 84 (9th Cir. 1962); *accord Cellular Sales, Inc.* v. *MacKay*,

942 F.2d 483, 487 (8th Cir. 1991) (plaintiff must "prove that his losses are incapable of calculation"). MercExchange was awarded $29.5 million in damages at trial. See Pet. Br. 8. One of MercExchange's experts stated that its damages reflected "the total economic value of the resulting reasonable royalty that is *adequate* to fairly compensate MercExchange for the defendant's infringement." Fed. Cir. App. A27601 (emphasis added). He added: "It seems most reasonable to me to conclude that the licensing rates actually obtained by MercExchange represent the best approximation of what MercExchange would have expected from the hypothetical negotiation [with eBay]." *Id.* at A27532.

Another MercExchange expert testified: "There are several ways to determine a reasonable royalty ... *I believe that this case lends itself to this sort of determination* ... [O]ne selects the royalty base ... that is most easy to determine and most reflective of the value of the technology, the patented technology .... [This is] something that's *very easy to determine*." *Id.* at A37979:5-A37980:11 (emphases added). He further explained that he relied on "the methods and system that I use in my real world experience, the experience I had when I was negotiating licenses on behalf of my company." JA 783. He concluded that his calculations provided "the best measure of the success and utilization of the patents-in-suit." Fed. Cir. App. 38103:15-38104:21.[10]

Moreover, Congress has expressly provided that in every case the district "court *shall* award damages *adequate* to compensate for the infringement." 35 U.S.C. § 284 (emphases added). That statutory command is irreconcilable with MercExchange's argument that generally patent damages are too difficult to determine.

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[10] MercExchange points to dictum in one century-old case. Resp. Br. 31. This was long before the kinds of economic analyses used by MercExchange in this case were developed.

To the contrary, patent damages may be estimated, with any uncertainty concerning the amount resolved against the infringer. See *Bigelow* v. *RKO Radio Pictures*, 327 U.S. 251, 265-66 (1946) ("The constant tendency of the courts is to find some way in which damages can be awarded ...."); *Sensonics, Inc.* v. *Aerosonic Corp.*, 81 F.3d 1566, 1572 (Fed. Cir. 1996) ("However, if actual damages cannot be ascertained with precision ..., damages may be estimated on the best available evidence, taking cognizance of the reason for the inadequacy of proof and resolving doubt against the infringer."). Indeed, because of the availability of nationwide venue, patent damages are estimated by plaintiff-friendly juries. See Pet. Br. 48.[11]

MercExchange's only purported support for why it might have difficulty proving damages for infringement of the '265 patent is its conclusory assertion that its license with AutoTrader "include[s] multiple significant terms that go beyond a mere exchange of money for the right to use the invention. See JA 493-512. The value of such terms ... are commonly not replicable by a simple award of money." Resp. Br. 36. This is a red herring. The AutoTrader license is limited to "auction-style" sales, JA 494-95, and the district court estopped MercExchange from arguing that the '265 patent's fixed-price claims cover auction-style sales. Fed. Cir. App. A136-39.[12] Moreover, MercExchange's reference to "JA 493-512" simply cites the entire AutoTrader license. MercExchange does not provide any explanation why any license term could not be measured in damages. Thus, MercExchange provides nothing to contradict its own experts

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[11] The United States hypothesizes a number of circumstances, such as injury to "reputation for innovation," that might not be "readily restored" by damages. U.S. Br. 16. The United States does not contend, however, that any of these hypothetical circumstances applies to this case.

[12] The only injunction issue before this Court concerns the '265 patent. The Federal Circuit held that the '176 patent was invalid, and remanded the '051 patent for a liability trial. Pet. App. 3a.

that they were able to calculate damages "adequate to fairly compensate MercExchange for the defendant's infringement." Fed. Cir. App. A27601.[13]

B. The District Court Reasonably Balanced The Hardships: MercExchange's primary argument on this point is premised on its prior argument that it will suffer "irreparable harm." Resp. Br. 34-35. Because this premise is wrong, MercExchange cannot even offer a reason why this Court should address the balance of the hardships.

In any event, MercExchange's argument that, as a matter of law, when a jury finds that a defendant willfully infringed, the district court cannot balance the hardships, see Resp. Br. 32,[14] is wrong. "The historic injunctive process was designed to deter, not to punish." *Hecht* v. *Bowles*, 321 U.S. 321, 329-30 (1944). Moreover, in patent cases, unlike tort cases, the Federal Circuit defines willfulness to include the failure to "exercise[] due care." *Vulcan Eng'g Co.* v. *Fata Aluminum, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002); see *Knorr-Bremse Systeme Fuer Nutzfhrzenge GMBH* v. *Dana Corp.*, 383 F.3d 1337, 1351 (Fed. Cir. 2004) (Dyk, J., concurring in part and dissenting in part) (describing how Federal Circuit's approach to willfulness has become "an island separated from the main body of American jurisprudence"); Note, *The Disclosure Function of the Patent System (Or Lack Thereof)*, 118 Harv.

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[13] MercExchange also oddly refers to "lost profits." Resp. Br. 31. MercExchange has never even claimed lost profits in this case. Moreover, "MercExchange today only licenses its inventions." *Id.* at 40. Thus, MercExchange cannot claim any potential future lost profits on products it makes. In any event, past and future lost profits are "estimate[d]" in patent cases, just as they are in antitrust and other complex cases. *See, e.g., Shockley* v. *Arcan*, 248 F.3d 1349, 1362 (Fed. Cir. 2001); *Bio-Rad Labs., Inc.* v. *Nicolet Instrument Corp.*, 739 F.2d 604, 616 (Fed. Cir. 1984).

[14] Respondents sole case citation, *Windsurfing Int'l, Inc.* v. *AMF, Inc.*, 782 F.2d 1995, 1003 n.12 (1986), *see* Resp. Br. 32 n.42, is puzzling because that footnote in *Windsurfing* indicates there was no willfulness.

L. Rev. 2007, 2017-18 (2005) ("The willful infringement rules in patent law are significantly less stringent.").

The district court found that here even a lack of due care was a "close call," Pet. App. 70a, because the jury's sole basis was that after eBay learned of the patent in "June of 2000," it did not "obtain an opinion of counsel or conduct a patent clearing investigation." *Id.* at 34a-35a. As the district court found, "eBay was using payment processors long *before* it received notice of the '265 patent"; eBay did not copy anything; and eBay's "success did *not* arise from the use of anything contained in the plaintiff's patents." *Id.* at 68a-69a (emphases added). See Pet. Br. 9 n.5 (quoting MercExchange's experts that eBay achieved significant success before 2000). In these circumstances, a trial court has discretion to decline to issue an injunction when the defendant's liability is based on a failure of due care. See *SEC* v. *Aaron*, 446 U.S. 680, 703 (1980) (Burger, C.J., concurring).

Similarly, MercExchange incorrectly argues that its "statutory right" to exclude must receive "special consideration" in a balance of hardships. Resp. Br. 25. Because irreparable injury is not present, MercExchange's right to exclude will be fully vindicated by the prospect of enhanced damages if eBay's work around fails. See *supra*, at 11. In these circumstances, all that an injunction could accomplish would be to coerce eBay into (a) abandoning its attempt to work around, and (b) paying a settlement amount far in excess of the value of using MercExchange's patent. Both would disserve the Patent Act. Abandoning a work around is contrary to the Patent Act's policies of promoting innovation, refinement, and competition. See Pet. Br. 24 (citing cases). Enabling the patentee to obtain an extortionate settlement is incompatible with Congress' determination in 1946—which MercExchange and its *amici* ignore—to amend the Patent Act

so that a patentee could not obtain an infringer's profits in excess of the patentee's actual damages. *Id.* at 34.[15]

C. The District Court Reasonably Weighed The Public Interest: For similar reasons, MercExchange cannot show an abuse of discretion by citing "the strong public interest ... in protecting the patent system's integrity" – which it offers as a synonym for a patentee's right to exclude. Resp. Br. 33, 43. The district court's decision protected the patentee's right to exclude in at least two ways. First, MercExchange could have shown irreparable injury by proving that eBay was not genuinely planning a sufficiently plausible work around. See *supra*, at 8-9. MercExchange does not even contend that it did this. Second, the district court stated that eBay may well face "enhanced damages" if its work around fails. Pet App. 59a.

Moreover, the district court correctly protected "the patent system's integrity" by noting the increased possibility of subsequent invalidation of a business method patent such as MercExchange's. See Pet. App. 59a. This cannot be criticized as an inapplicable, abstract overgeneralization, because subsequently the PTO's staff took written action *rejecting* all of the claims in the '265 patent. JA 1057. It hardly promotes respect for "the patent system's integrity" for courts to enforce injunctions on patents where the latest action from the PTO staff indicates that the patent is invalid.

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[15] Indeed, evidently uncomfortable with the coercion that logically flows from its position, the United States concedes that if there is a remand, the district court would have discretion "to accommodate a wide variety of [eBay's] objections" and "legitimate concerns" by issuing a very narrow injunction. U.S. Br. 28-29. In fact, under Fed. R. Civ. P. 65(d), and independently of the four-factor test, the district court would have discretion to deny a permanent injunction "[b]ecause the proofs required for determining future infringing activity are not insignificant and not amenable to a narrowly tailored order." *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380-81 (Fed. Cir. 2005).

Indeed, the United States concedes that because of the PTO staff's current rejection, the district court "would have discretion" to stay any injunction. U.S. Br. 27 n.27. The United States makes no attempt to reconcile how the PTO's action is sufficiently final to justify, by itself, a multi-year stay, but is somehow too "provisional," *id.* at 26, even to be considered in addressing whether to issue an injunction. The "public interest" does not change simply because a court is considering an injunction rather than a stay. See *Hilton* v. *Braunskill*, 481 U.S. 770, 776 (1987) (noting that fourth stay factor is "where the public interest lies").

* * * *

In sum, MercExchange and its *amici* do not identify a single fact that is missing from this case but that in another case might show an absence of irreparable injury, the presence of an adequate legal remedy, or a different balance of the hardships. Thus, their proposed presumptions, or statements about "general" tendencies, really amount to what MercExchange calls an "irrefutabl[e]" rule. Resp. Br. 28. Under that rule, without regard to the facts, a district court must grant an injunction except in the exceedingly "rare[]" case that satisfies a public interest exception. *Id.* at 33. But that is the very rule that the Federal Circuit has employed for twenty years, in complete disregard of Section 283's discretionary language. Pet. App. 26a. This Court should not accept any invitation to negate the abuse of discretion standard of review and the discretionary four-factor test by equating them to the Federal Circuit's erroneous approach. This Court can reestablish the correct approach only by upholding the district court's decision.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

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PETITIONERS

v.

MERCEXCHANGE, L.L.C.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in applying the legal standard governing the issuance of a permanent injunction after a finding of patent infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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In the Supreme Court of the United States

No. 05-130

EBAY INC. AND HALF.COM, INC.,
PETITIONERS

v.

MERCEXCHANGE, L.L.C.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

INTEREST OF THE UNITED STATES

The United States has a strong interest, encompassing a variety of perspectives, in the scope of judicial remedies for patent infringement. Pursuant to the Patent Clause of the Constitution, U.S. Const. Art. I, § 8, Cl. 8, Congress has charged the United States Patent and Trademark Office (PTO), an agency of the Department of Commerce, with responsibility for examining patent applications, issuing patents, and advising the President on domestic and international issues of patent policy. See 35 U.S.C. 1 *et seq.* The United States is regularly engaged in litigation over the validity and scope of patents, sometimes as a patent holder but more commonly as a defendant in infringement actions. Although the United States (as well as its agents and contractors) is not subject to injunctive relief for patent infringement, see 28 U.S.C. 1498(a), it may seek such relief as a patent holder. Furthermore, the United States has entered into

international agreements that address remedies for patent infringement. See, *e.g.*, Agreement on Trade-Related Aspects of Intellectual Property Rights, Dec. 15, 1993, arts. 28, 31, 33 I.L.M. 81, 94, 95 (TRIPS Agreement) (defining minimum rights of patent holders and restricting compulsory licensing). And because the grant or denial of patent injunctions may directly affect competition and innovation in the marketplace, this case implicates questions of core concern to both the Federal Trade Commission (FTC) and the Antitrust Division of the United States Department of Justice.[1]

STATEMENT

Respondent MercExchange, L.L.C. sued petitioners eBay Inc. and Half.com, Inc., in the United States District Court for the Eastern District of Virginia, alleging, among other things, willful infringement of U.S. Patent No. 5,845,265 ('265 patent), involving the marketing of goods through an electronic network. See Pet. App. 1a. A jury returned a verdict upholding the validity of the '265 patent and finding that petitioners had willfully infringed that patent and a related patent, and it awarded $35 million in damages. See *id.* at 2a, 29a. The district court reduced the damage award to $29.5 million and declined to impose permanent injunctive relief. See *id.* 3a, 51a, 73a. On cross-appeals, the Federal Circuit affirmed in part, reversed in part, vacated in part, and remanded for further proceedings. See *id.* at 3a, 28a. In particular, the court of appeals reversed the district court's denial of a per-

[1] See generally, FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003) (*FTC Report*) <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>; Office of the Attorney General, U.S. Dep't of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* (Oct. 2004) <http://www.usdoj.gov/olp/ip_task_force_report.pdf>; U.S. Dep't of Justice & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 6, 1995) (*Licensing Guidelines*), *reprinted in* 4 Trade Reg. Rep. (CCH) 20,723 (1995) <http://www.usdoj.gov/atr/public/guidelines/0558.pdf>.

manent injunction and remanded that matter for further proceedings. *Ibid.*

A. The Statutory Remedies For Patent Infringement

The Patent Clause of the Constitution empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their * * * Discoveries." U.S. Const. Art. 1, § 8, Cl. 8. Congress has implemented the Patent Clause through statutory enactments, commonly known as the Patent Acts, that have set out the conditions for obtaining a patent.[2]

The Patent Act of 1952, as amended, provides the currently controlling law governing the issuance of patents. See 35 U.S.C. 1 *et seq.* The Patent Act confers on a patent recipient, "[a]s a reward for inventions and to encourage their disclosure," *Universal Oil Prods. Co.* v. *Globe Oil & Refining Co.*, 322 U.S. 471, 484 (1944), the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States." 35 U.S.C. 154(a)(1). To protect and enforce that right, the Patent Act further provides that the patentee "shall have remedy by civil action for infringement of his patent." 35 U.S.C. 281. The Patent Act guarantees to prevailing patentees "damages adequate to compensate for the infringement," which "in no event [shall be] less than a reasonable royalty for the use made of the invention by the infringer," and which may, in appropriate cases, be multiplied up to three times. 35 U.S.C. 284. The successful patentee is entitled to costs and interest as a matter of course, *ibid.*, and, "in exceptional cases," may recover reasonable attorney fees, 35 U.S.C. 285.

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[2] See, *e.g.*, Patent Act of 1790, ch. 7, 1 Stat. 109; Patent Act of 1793, ch. 11, 1 Stat. 318; Patent Act of 1836, ch. 357, 5 Stat. 117; Patent Act of 1839, ch. 88, 5 Stat. 353; Patent Act of 1870, ch. 230, 16 Stat. 198; Patent Act of 1939, ch. 450, 53 Stat. 1212; Patent Act of 1952, ch. 950, 66 Stat. 792.

The Patent Act also authorizes the district courts to protect a patentee's rights through injunctive relief. 35 U.S.C. 283. Congress first authorized injunctive relief as a permissible remedy for patent infringement more than 185 years ago, providing that the federal courts adjudicating patent disputes "shall have authority to grant injunctions according to the course and principles of courts of equity." Act of Feb. 15, 1819, ch. 19, 3 Stat. 481. Although Congress has regularly revisited the patent laws, it has left that grant of equity jurisdiction essentially unchanged.[3] In its current iteration, adopted in 1952, the Patent Act authorizes district courts to grant injunctive relief in the following terms:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

35 U.S.C. 283.

B. The Proceedings Below

1. Following lengthy pretrial proceedings and a five-week trial in which the jury found, among other things, that MercExchange's '265 patent was valid and had been willfully infringed by petitioners, the district court considered post-trial motions, including MercExchange's request under 35

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[3] See, *e.g.*, Patent Act of 1836, ch. 357, § 17, 5 Stat. 117 ("courts shall have power, upon bill in equity filed by any party aggrieved * * * to grant injunctions, according to the course and principles of courts of equity"); Patent Act of 1870, ch. 230, § 55, 16 Stat. 206 ("the court shall have power, upon bill in equity filed by any party aggrieved, to grant injunctions according to the course and principles of courts of equity"); Patent Act of 1897, ch. 391, § 6, 29 Stat. 694 ("The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable."); Patent Act of 1922, ch. 58, § 8, 42 Stat. 392 (same); Patent Act of 1946, ch. 726, 60 Stat. 778 (same).

U.S.C. 283 for injunctive relief. See Pet. App. 2a-3a, 29a-74a. The district court denied MercExchange's request for a permanent injunction. *Id.* at 52a-59a.

The district court stated that, under Federal Circuit case law, "an injunction should issue once infringement has been established unless there is sufficient reason for denying it." Pet. App. 52a (citing *W.L. Gore & Assocs. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)). The district court nevertheless recognized that "the decision to grant or deny injunctive relief remains within the discretion of the trial judge," *ibid.*, and it separately analyzed the four factors that traditionally govern equitable relief: (1) the likelihood of irreparable injury; (2) the inadequacy of legal remedies; (3) the balance of hardship between the parties; and (4) and the public interest, *id.* at 53a (citing *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998), aff'd, 185 F.3d 1259 (Fed. Cir. 1999)). See generally *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312-313 (1982).

The district court concluded that the "irreparable harm" factor counseled against issuing an injunction. Pet. App. 53a-55a. The court stated that, because MercExchange had established both the validity of its patent and the likelihood of continuing infringement, "immediate irreparable harm is presumed." *Id.* at 53a (quoting *Odetics*, 14 F. Supp. 2d at 794, and *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir.), cert. denied, 464 U.S. 996 (1983)). The court concluded, however, that petitioners had adduced sufficient evidence at trial to overcome that presumption, reasoning that "the evidence of [MercExchange's] willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent [to seek monetary compensation rather than an injunction] are sufficient to rebut the presumption that [MercExchange] will suffer irreparable harm if an injunction does not issue." *Id.* at

55a.[4] The district court correspondingly determined that MercExchange had an adequate remedy at law, emphasizing that MercExchange had "licensed its patents to others in the past and has indicated its willingness to license the patents to [petitioners]" as well. *Id.* at 55a-56a.

The district court concluded that the "public interest" considerations were in equipoise. Pet. App. 56a-58a. The court stated that the public interest in maintaining the integrity of the patent system usually favors equitable enforcement of a patentee's right to exclude. *Id.* at 56a. But the court expressed concern that, in this case, the infringed patents were so-called "business-method patents," which the court described as the subject of "growing concern" to the public. *Id.* at 57a. That fact, the court determined, tended to weigh against the issuance of an injunction, particularly because MercExchange did not itself practice its patents. *Ibid.*

The district court further concluded that the "balance of the hardships" favored petitioners. Pet. App. 58a-59a. It concluded that damages would adequately compensate MercExchange for any future infringement and that an injunction would "open[] a Pandora's box of new problems," including "contempt hearing after contempt hearing," as petitioners attempted to reconfigure their systems to avoid infringement. *Ibid.* The court suggested that future infringement could be adequately deterred by the prospect of enhanced damages. *Id.* at 59a.

2. The court of appeals affirmed the jury's finding of validity and willful infringement of the '265 patent, but reversed other aspects of the verdict, which effectively reduced the award for past damages to $25 million, and remanded for fur-

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[4] The court also noted that MercExchange "never moved this court for a preliminary injunction"—a factor that, although "certainly not dispositive," tended in the district court's view to undercut the presumption of irreparable harm. Pet. App. 55a.

ther proceedings on an infringement claim that the district court had resolved through summary judgment. Pet. App. 1a-28a. Most significantly for present purposes, the court of appeals reversed the district court's denial of a permanent injunction. *Id.* at 3a, 26a-28a.

The court of appeals stated that, "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (quoting *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.), cert. denied, 493 U.S. 853 (1989)). The court acknowledged that district courts "have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Id.* at 26a (quoting *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995)). It cited, as an example, the public's need for use of "an invention to protect the public health." *Ibid.* But it concluded that the district court "did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Ibid.*

The court of appeals examined and rejected each of the district court's reasons for denying injunctive relief. "A general concern regarding business-method patents," the court explained, cannot justify "the unusual step" of denying a permanent injunction. Pet. App. 26a. Nor was it relevant, the court added, that future disputes might arise and require successive contempt hearings: "A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendant's conduct continued to violate its rights." *Id.* at 27a.

The court of appeals also found nothing significant in the fact that MercExchange licenses, rather than uses, its patents. A patentee's willingness to negotiate a license, the court stated, "should not * * * deprive it of the right to an injunction to which it would otherwise be entitled." Pet. App. 27a. MercExchange was therefore entitled to enforce its statutory right to exclude, even if only to increase its leverage in license negotiations. Such leverage, the court stated, "is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." *Ibid.*[3] Accordingly, the court of appeals adhered to what it described as "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances," and it reversed the district court's denial of MercExchange's motion for a permanent injunction. *Id.* at 28a.

SUMMARY OF ARGUMENT

The court of appeals did not accurately articulate in its opinion the principles governing a patentee's right to equitable relief, but that court reached the correct result in reversing the district court's denial of MercExchange's request for a permanent injunction. The judgment of the court of appeals should therefore be affirmed.

I. A. The Patent Act of 1952 grants a district court discretionary authority to issue injunctive relief to prevent the continuing infringement of a patent that has been adjudged valid. See 35 U.S.C. 283. Despite references to a "general

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[3] Additionally, the court held, it was irrelevant that MercExchange had failed to seek a preliminary injunction, because preliminary and permanent injunctions "are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes." Pet. App. 27a-28a (quoting *Lerner Germany GmbH* v. *Lerner Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996), cert. denied, 519 U.S. 1059 (1997)).

rule" favoring injunctive relief, the Federal Circuit has correctly recognized that the district court's grant of injunctive relief is discretionary. See *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), cert. denied, 469 U.S. 856 (1984).

B. The Patent Act's provision that injunctions shall issue "in accordance with the principles of equity," 35 U.S.C. 283, directs the district courts to issue injunctions in accordance with the familiar four-factor test set out in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982). Although the court of appeals did not recite that four-factor test in reviewing the district court's exercise of discretion, that test provides the appropriate framework for disciplined evaluation of the special considerations that apply to patent claims.

C. Because a patent confers a statutory right to exclude others from using a patented invention, continuing infringement will normally result in irreparable injury that cannot be adequately compensated by a court-imposed "reasonable royalty" for future use. Nevertheless, neither the Patent Act nor this Court's decisions categorically require injunctive relief. Irreparable injury and inadequacy of monetary relief will not be present in every case. Moreover, a district court's consideration of the balance of hardships and the public interest may counsel against injunctive relief in some situations. By the same token, however, there is no basis for withholding injunctive relief in response to general concerns about potential abuse of the patent system. The decision whether injunctive relief is appropriate must necessarily turn on the facts of each case.

D. In this case, although the court of appeals did not invoke the traditional four-factor test, it correctly recognized that the district court had improperly relied on inappropriate considerations, which amounted to an abuse of discretion, and the court of appeals therefore properly reversed the district

court's denial of MercExchange's request for an injunction. The judgment of the court of appeals should be affirmed, and the case should return to the district court for entry of an appropriate decree.

II. There is no warrant for this Court to overrule its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), or its other decisions addressing the appropriateness of granting injunctions in patent cases. The Court correctly held in *Continental Paper Bag* that a federal court may grant a patentee an injunction preventing continuing infringement even if the patentee has "unreasonab[ly]" failed to practice its own invention. *Id.* at 429-430. That holding, which preserves an equitable court's traditional discretion to grant or withhold relief, subject to review for abuse of discretion, is consistent with the governing legal principles.

ARGUMENT

I. THE COURT OF APPEALS' JUDGMENT, WHICH REVERSED THE DISTRICT COURT'S DENIAL OF THE PATENTEE'S MOTION FOR A PERMANENT INJUNCTION, SHOULD BE AFFIRMED

Petitioners argue that the Federal Circuit has adopted a "nearly-automatic injunction rule" (Pet. Br. 17, 26-28), has prevented the district courts from exercising their traditional equitable discretion in determining whether an injunction is appropriate in patent cases (*id.* at 20-26), and has applied an inappropriately demanding standard of review in place of the familiar abuse of discretion standard (*id.* at 28-41). The Federal Circuit's patent decisions have correctly recognized that injunctions issue as a matter of discretion, not as of right. At the same time, however, the court of appeals' opinion in this case does not acknowledge or articulate the traditional principles that govern the issuance of permanent injunctions. Patent litigants and the lower courts accordingly would benefit

from this Court's recapitulation of the controlling principles in light of the important consequences of patent litigation for competitiveness and technological progress. Application of those controlling principles supports issuance of an injunction in this case, and the judgment below should therefore be affirmed.

A. Section 283 Of The Patent Act Grants District Courts Discretionary Authority To Issue A Permanent Injunction As A Remedy For Patent Infringement

Petitioners and their amici are correct in construing Section 283 of the Patent Act to confer *discretionary* authority on district courts to grant injunctive relief as a remedy for patent infringement. The plain terms of Section 283, which provide that courts adjudicating patent disputes "may grant injunctions in accordance with the principles of equity," foreclose any other construction.[6] When Congress enacted Section 283, it did so against the backdrop of this Court's consistent statements that the similarly worded predecessor stat-

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[6] See *Jama* v. *ICE*, 543 U.S. 335, 346 (2005) ("The word 'may' customarily connotes discretion."); *Haig* v. *Agee*, 453 U.S. 280, 294 n.26 (1981) ("'[M]ay' expressly recognizes substantial discretion."). Compare 35 U.S.C. 283, with 35 U.S.C. 284 (the court "*shall* award the claimant damages") (emphasis added). Indeed, even less permissive language would not be construed to deprive district courts of their traditional equitable discretion. See *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) ("[W]hen district courts are properly acting as courts of equity, they have discretion unless a statute clearly provides otherwise."); *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 313 (1982) ("Congress may intervene and guide or control the exercise of the court's discretion, but we do not lightly assume that Congress has intended to depart from established principles."); *Amoco Prod. Co.* v. *Village of Gambell*, 480 U.S. 531, 544 (1987) (injunctive relief discretionary in absence of "clear indication" that Congress "intended to deny federal district courts their traditional equitable discretion").

utes, see pp. 3-4, *supra*, conferred equitable discretion.[7] The Federal Circuit has emphatically expressed its correct understanding that Section 283 preserves that discretion:

> Section 283, by its terms, clearly makes the issuance of an injunction discretionary: the court "*may grant*" relief "*in accordance with the principles of equity.*" The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction.

Roche Prods., Inc. v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir.), cert. denied, 469 U.S. 856 (1984).

Since its decision in *Roche Products*, however, the Federal Circuit has stated on several occasions—including the case below—that, as a "general rule," a patentee that establishes the validity of its patent and the fact of infringement is entitled to a permanent injunction prohibiting future infringement. Pet. App. 26a; see, *e.g.*, *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.) ("It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."), cert. denied, 493 U.S. 853 (1989). The court below also referred to "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." Pet. App. 28a. Construed as enunciations of the governing legal rule, those statements would be erroneous; no "general rule" mandates injunctive relief in patent cases. The statements fare better, however, as descriptions of how the

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[7] See *Parks* v. *Booth*, 102 U.S. 96, 97 (1880) ("Federal courts vested with jurisdiction [upon a bill in equity] have power, in their discretion, to grant injunctions to prevent the violation of any right secured by a patent, as in other cases of equity cognizance."); see also *Rice & Adams Corp.* v. *Lathrop*, 278 U.S. 509, 514 (1929) (discretion in issuing interlocutory injunction); *Keyes* v. *Eureka Consol. Min. Co.*, 158 U.S. 150 (1895) (denying injunction on equitable grounds); *Lane & Bodley Co.* v. *Locke*, 150 U.S. 193, 200-201 (1893) (same); *Root* v. *Railway Co.*, 105 U.S. 189, 191-194 (1881) (describing the early American history of injunctive relief in patent disputes).

familiar our-factor test for injunctive relief will play out in the typical case.[8]

Contrary to petitioners' suggestions, the Federal Circuit's decisions, which cite *Roche Products* approvingly (*e.g.*, Pet. App. 26a), do not reject the principle that a "trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction" (*Roche Prods.*, 733 F.2d at 865), nor do those decisions announce a "nearly-automatic injunction rule" (Pet. Br. 17). Rather, those decisions repeat the past observations of courts and patent commentators that a patentee that has proved infringement of a valid patent and a continuing risk of infringement will usually be able to satisfy the traditional standards for obtaining injunctive relief.[9]

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[8] Compare *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 197 (1980) ("The traditional remedy against * * * infringement is the injunction."), with *W.L. Gore & Assocs., Inc.* v. *Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, * * * injunctive relief against an adjudged infringer is usually granted."), and *KSM Fastening Sys., Inc.* v. *H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985) ("injunctive relief against an infringer is the norm").

[9] See *Odetics, Inc.*, 185 F.3d at 1272 ("Thus, while we have stated the general rule that an injunction should follow an infringement verdict [citing *Richardson*, 868 F. 2d at 1247], we also recognize that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction [citing *Roche Prods.*, 733 F.2d at 865]."). See also, *e.g.*, Donald S. Chisum, *Principles of Patent Law* 1342 (3d ed. 2004); 7 Ernest B. Lipscomb III, *Lipscomb's Walker on Patents* § 25:33, at 342-343 (1988 & Supp. 2004); Irving Kayton, *Kayton on Patents* 1-20 to 1-21 (1979); Note, *Injunctive Relief in Patent Infringement Suits*, 112 U. Pa. L. Rev. 1025, 1048 (1964); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328, 342 (1958).

B. Section 283 Of The Patent Act Additionally Directs That Such Injunctions Shall Be Issued In Accordance With The Familiar Principles Of Equity

Petitioners further contend (Pet. Br. 17, 20-21) that the Federal Circuit has "supplanted the district court's consideration of the fourfold 'principles of equity'"—requiring consideration of irreparable injury, adequacy of legal remedies, the balance of hardships, and the public interest—in favor of a "zero (or at most one) factor test" that is "the antithesis of the traditional four-factor approach." That characterization somewhat overstates the necessary import of the decision below, but it does raise a matter of valid concern.

Petitioners are certainly correct in their premise that Section 283, which provides that patent injunctions shall issue "in accordance with the principles of equity," 35 U.S.C. 283, directs the district courts, when adjudicating private patent rights, to issue injunctions in accordance with the familiar four-factor test. As this Court explained in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982), "the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies." *Id.* at 312. When the parties "present competing claims of injury," the court must also "balanc[e]" their interests in light of the possible injuries that might result from granting or denying the request for injunctive relief. *Ibid.* (quoting *Yakus* v. *United States*, 321 U.S. 414, 440 (1944)). Furthermore, the court "should pay particular regard for the public consequences in employing the extraordinary remedy of injunction." *Ibid.* If Congress had intended "to depart from established principles" and base

injunctive relief on a different standard, it would have made that intention manifest. *Id.* at 313.[10]

The Federal Circuit, in this case as well as others, has not explicitly recited the traditional four-factor test when reviewing a district court's grant or denial of permanent injunctive relief.[11] The court of appeals' failure to do so in a particular case is not itself a basis for reversal. Nevertheless, the court of appeals' analysis would proceed in a more disciplined fashion if the court expressly applied the abuse-of-discretion standard with explicit reference to the traditional four-factor test, which provides the requisite framework for evaluating the distinct considerations that apply to patent claims.[12]

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[10] Congress has exercised that prerogative in the patent context in certain limited respects. Most significantly, Congress has eliminated the district courts' jurisdiction in equity to enjoin the infringement of a patent by the federal government (or its officers or agents, or contractors). See 28 U.S.C. 1498(a). As this Court has recognized, Section 1498(a) explicitly limits plaintiffs alleging federal government infringement to remedies at law. See *Crozier* v. *Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 306-309 (1912); see also *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 648 n.11 (1999). The Federal Circuit has appropriately applied that provision to hold that, even after obtaining a verdict of infringement, a patentee cannot prevent a manufacturer from supplying infringing devices to the government. See *W.L. Gore & Assocs.*, 842 F.2d at 1282-1283.

[11] In contrast, the Federal Circuit routinely cites a similar four-part test in reviewing the grant or denial of preliminary injunctions. See, *e.g.*, *Reebok Int'l, Ltd.* v. *J. Baker, Inc.*, 32 F.3d 1552, 1555 (Fed. Cir. 1994); *Illinois Tool Works, Inc.* v. *Grip-Pak, Inc.*, 906 F.2d 679, 681 (Fed. Cir. 1990); *Hybritech Inc.* v. *Abbott Labs.*, 849 F.2d 1446, 1451 (Fed. Cir. 1988). As this Court has explained, "[t]he standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success." *Amoco Prod. Co.*, 480 U.S. at 546 n.12.

[12] As a prerequisite to any equitable relief, a court must also consider any traditional defenses to equitable relief, such as laches or unclean hands. The Federal Circuit routinely addresses such matters. See, *e.g.*, *Odetics, Inc.*, 185 F.3d at 1272-1273 (patentee not entitled to permanent injunction as to products manufactured during laches period); *Symbol Techs., Inc.* v. *Lemelson Med.*,

1. *Irreparable Injury.* As this Court recognized in *Amoco Production*, some transgressions of legal rights, by virtue of the "nature" of the injury, will often produce "irreparable" consequences. 480 U.S. at 545. Infringement of a valid patent typically falls within that category. By definition, infringement deprives a patentee of its "right to exclude others from making, using, offering for sale, or selling the invention," 35 U.S.C. 154(a)(1), which in turn may result in "irreparable injury" by denying the patentee, for some unrecoverable period of time, the only legal right that a patent conveys. See *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("the essence of a patent grant is the right to exclude others from profiting by the patented invention"); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917) ("It has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented.").

The prospect that infringement will produce irreparable harm arises whether the patentee actually uses its invention or licenses others to do so. Infringement may alter the marketplace in ways that cannot be readily restored, by affecting, for example, market share, reputation for innovation, and intangible competitive opportunities, such as the opportunity to be first to market with a particular technology, to establish a particular technology as a de facto industry standard, or to develop and patent further improvements to the original design. Accordingly, a patentee that has obtained a judicial determination of continuing infringement of a valid patent can

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Educ. & Research Found., 422 F.3d 1378, 1384-1385 (Fed. Cir. 2005) (prosecution laches barred enforcement of patent); see also *A.C. Aukerman Co.* v. *R.L. Chaides Const. Co.*, 960 F.2d 1020, 1039-1043 (Fed. Cir. 1992) (en banc) (contrasting the doctrines of laches and equitable estoppel in patent law); *Monsanto Co.* v. *McFarling*, 363 F.3d 1336, 1341-1342 (Fed. Cir. 2004) (discussing patent misuse).

normally make a strong showing of "irreparable harm" based upon its statutory right to exclude others from using or selling the invention.[13]

2. *Inadequacy of Legal Remedies.* As this Court also noted in *Amoco Production*, there are some transgressions of legal rights that, by their "nature," can "seldom be adequately remedied by money damages." 480 U.S. at 545. The financial consequences of patent infringement, which denies the patentee the economic reward that spurs innovation, see, *e.g.*, *Mazer* v. *Stein*, 347 U.S. 201, 219 (1954); cf. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* 73-74 (1942), are theoretically remediable through monetary damages. But even if damages were a permissible substitute for the patentee's prospective right to exclude, the quantification of those damages, in the form of a "reasonable royalty," see 35 U.S.C. 284, can be fraught with difficulty. See generally 7 Donald S. Chisum, *Chisum on Patents* § 20.03[3] (1999 & 2005 Supp.).[14]

Courts have no choice but to quantify monetary damages for past infringement. See *Atlas Powder Co.* v. *Ireco Chems.*,

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[13] The Federal Circuit has repeatedly stated, in the preliminary injunction context, that a showing of continuing infringement "raises a presumption of irreparable harm to the patentee" that, although "rebuttable," nevertheless "shifts the ultimate burden of production on the question of irreparable harm onto the alleged infringer." *Reebok Int'l Ltd.*, 32 F.3d at 1556; see, *e.g.*, *Smith Int'l Inc.*, 718 F.2d at 1581. This Court has made clear, however, that such presumptions are "contrary to traditional equitable principles." See *Amoco Prod. Co.*, 480 U.S. at 545. The party seeking equitable relief ordinarily bears the burden of demonstrating that the relief is warranted. See *Romdean* v. *Mosinee Paper Corp.*, 422 U.S. 49, 61 (1975). Nevertheless, continuing infringement that denies the patentee its right to exclude is powerful evidence of irreparable harm.

[14] See, *e.g.*, *Riles* v. *Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002); *Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978); see also 2 John W. Schlicher, *Patent Law: Legal and Economic Principles* §§ 9:2, 9:77-9:81 (2d ed. 2004).

773 F.2d 1230, 1233 (Fed. Cir. 1985); 35 U.S.C. 284. But the availability of prospective injunctive relief will normally weigh against the substitution of a court-imposed "reasonable royalty" for future use, which could be analogized to inequitable "compulsory licens[ing]." See *ibid.*[15] Congress has consistently turned aside proposals to adopt broad-based compulsory licensing schemes. See *Dawson Chem. Co.*, 448 U.S. at 215 n.21; *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 417 n.18, 433 n.27 (1945) (collecting examples).[16] In addition, the United States has entered into international treaties respecting intellectual property that preserve the patentee's right to exclude and that limit compulsory licensing.[17] In light of such congressional concerns and international agreements, the courts, at a minimum, should be cautious in awarding monetary damages as a substitute for prospective injunctive relief.

3. *Balance of Hardships.* As this Court has recognized, equity does not require a court to "restrain an act the injurious consequences of which are merely trifling." *Weinberger*, 456 U.S. at 311 (citation omitted); see *Amoco Prod. Co.*, 480 U.S. at 545. When the patent litigants present legitimately

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[15] See *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) ("The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy."), aff'd, 71 F.3d 1573 (Fed. Cir. 1995); but see *Foster* v. *American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir.) (allowing compulsory royalties), cert. denied, 419 U.S. 883 (1974).

[16] Congress has authorized the unconsented use of patented inventions in only limited circumstances involving the federal government, 28 U.S.C. 1498(a), or narrow fields of technology, *e.g.*, 42 U.S.C. 2183 (patents related to atomic energy); 42 U.S.C. 7608 (patents related to certain air-pollution control technologies).

[17] See, *e.g.*, TRIPS Agreement, arts. 28, 31, 33 I.L.M. at 94-95; U.S.-Australia Free Trade Agreement, May 18, 2004, art. 17.9, ¶ 7 <http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Australia_FTA/Final_Text/Section_Index.html>.

competing claims of injury, the court should consider whether injunctive relief fairly "balances the conveniences of the parties and possible injuries to them." *Weinberger*, 456 U.S. at 312 (citation omitted). The balance of hardships invariably depends on a fact-specific inquiry that may weigh in favor of, or against, injunctive relief in a particular patent case. As a general matter, and absent countervailing evidence, it favors structuring injunctive relief to protect the patentee's judicially validated right to exclude without subjecting the infringer to disproportionately injurious consequences. Moreover, the balance of hardships inquiry can consider actions of the patentee that, while not rising to the level of providing a defense to equitable relief, nonetheless counsel against enjoining defendants who have acted in good faith. The balance-of-hardships inquiry can temper the hardship that might otherwise fall on a non-willful infringer, particularly one that has in good faith invested effort or capital without knowledge of the infringement. By contrast, that inquiry correspondingly disfavors the willful infringer.

4. *Public Interest.* This Court has repeatedly acknowledged "the important role of the 'public interest' in the exercise of equitable discretion." *Amoco Prod. Co.*, 480 U.S. at 545. In patent litigation, there is a general public interest in "maintaining the integrity of the patent system," *Odetics*, 14 F. Supp. 2d at 795.[18] Nevertheless, the public interest may

[18] As the Court explained in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), the federal patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Id.* at 150-151. Thus, while the public may have discrete interests in unbroken access to a particular invention that militate against injunctive relief in a particular case, in the ordinary case the enforcement in equity of a patentee's exclusive right to the invention generally advances the public interest, as identified by Congress, by guaranteeing to the patentee the benefit of the basic bargain reflected in the patent system. See *id.* at 151.

weigh against an injunction that would "frustrat[e] an important public need for the invention." *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995). As in the case of balancing hardships, the inquiry will depend crucially on a fact-specific inquiry. The question is not whether injunctive relief would merely inconvenience third parties, but rather whether such relief would undermine an identifiable public interest in the realm of national security, public health or safety, the operation of commerce, or other comparable areas of vital concern to innocent third parties or the public at large. See IBM Br. 21-23; Securities Industry Ass'n (SIA) Br. 6-10; Business Software Alliance (BSA) Br. 29-30.

C. The Granting Or Withholding Of Injunctive Relief Should Turn On The Facts Of Each Case Rather Than On General Policy Concerns Respecting Potential Abuse Of The Patent System

Petitioners and many amici express concern that the Federal Circuit's allegedly "automatic" or "near automatic" injunction rule in patent cases invites abusive litigation and stifles innovation. See, *e.g.*, Pet. Br. 24-25; Time Warner Br. 8-25; BSA Br. 7-12; American Innovators' Alliance (AIA) Br. 22-30. Those entities may overstate the extent to which the Federal Circuit has, in fact, adopted an "automatic" or "near-automatic" patent injunction rule. But, in any event, they raise valid concerns that an automatic injunction rule has no place in the inherently discretionary inquiry into the appropriateness of injunctive relief and that unjustified or overly broad injunctive relief *in particular cases* can produce abuses that impair competition and innovation. The solution lies, first, in the district courts' careful application of the familiar four-factor test for equitable relief; and second, in the Federal Circuit's review of the district courts' determinations of ap-

propriate relief under the abuse-of-discretion standard. See pp. 11-20, *supra*.

A more exacting application of traditional equitable principles will properly foreclose, or limit the scope of, injunctive relief in appropriate cases. A careful application of those principles would ameliorate, for example, the so-called "hold-up" and "patent thicket" scenarios, in which an opportunistic patentee may theoretically exploit the additional leverage afforded by an injunction to extract "windfall" or "in terrorem" settlements far out of proportion to the value of the patent at issue. See, *e.g.*, Pet. Br. 34, 47, 49; Time Warner Br. 8-12; BSA Br. 5-12; SIA Br. 18-19; Computer & Communications Indus. Ass'n Br. 2-3, 7-8; AIA Br. 25-29; see generally *FTC Report* ch. 2, at 25-29; *id.* ch. 3, at 34-41, 51-53.[19] In such a scenario, a district court might properly conclude, after taking account of the balance of hardships and the public interest, that injunctive relief is inappropriate.[20]

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[19] A hold-up scenario might arise, as one example, in the case of the implementation of industry standards. A patentee may assert that its patents cover government-mandated or industry-adopted technical standards, such that every economically feasible implementation of the standard necessarily infringes the patent. See generally Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889 (2002); Janice M. Mueller, *Patenting Industry Standards*, 34 J. Marshall L. Rev. 897 (2001); see also *Rambus Inc.* v. *Infineon Techs. AG*, 318 F.3d 1081, 1107-1109 (Fed. Cir. 2003) (Prost, J., dissenting in part) (describing a hold-up scheme).

[20] See *Weinberger*, 456 U.S. at 311-312 (the remedy of injunction is not available "to restrain an act the injurious consequences of which are merely trifling" (quoting *Consolidated Canal Co.* v. *Mesa Canal Co.*, 177 U.S. 296, 302 (1900))). The "hold-up" problem is not a new concern in patent law, and federal courts have in the past exercised their discretion to deny equitable relief in appropriate cases. *E.g.*, *Hoe* v. *Boston Daily Advertiser Corp.*, 14 F. 914, 915 (C.C.D. Mass. 1883) (denying an injunction because the harm to the defendant would be severe, and "[t]he only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation * * * for the further conduct of [license] negotiation[s]").

Petitioners' and the amici's concerns extend, of course, to other scenarios apart from the "hold-up" and "patent thicket" problems, ranging from the practice of "submarine patenting" (*e.g.*, AIA Br. 27-28) to the emergence of opportunistic "patent litigation" entities (*e.g.*, BSA Br. 12-18). Although a proper application of traditional equitable principles should serve to alleviate those concerns to a significant extent, they raise questions that reach well beyond the specific issues in this case and may implicate concerns better addressed through targeted legislation than through general statements about the proper application of the four-factor test to scenarios not before the Court.[21] The potential for abuse should not obscure the reality that continuing infringement of a valid patent *typically* produces irreparable injury that is not readily compensable through a court-imposed prospective royalty and that the public and private equities frequently weigh in favor

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[21] In some such cases, the patent law already provides potential solutions. See, *e.g.*, *Symbol Techs., Inc.*, 422 F.3d at 1384-1385 (where the patentee purposefully delayed issuance of patent claims to ambush infringers, the equitable doctrine of prosecution laches barred enforcement of the patent); *In re Bogese*, 303 F.3d 1362 (Fed. Cir. 2002) (affirming PTO's application of prosecution laches); see also PTO, *Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims*, 71 Fed. Reg. 48 (2006) (proposing guidelines to minimize delays in issuance of patents). In other cases of apparent inequity, the underlying concerns may arise from patentability standards that extend protection to discoveries that allegedly fail to satisfy the statutory criteria for patentability, and are best addressed (if at all) by reference to those standards rather than by adjusting the rules governing the availability of injunctive relief for valid patents. See, *e.g.*, *FTC Report* Executive Summ. at 8-12, 14-15 (FTC recommendations for patent reform, including elimination of "clear and convincing evidence" burden of proof for patent invalidity and modification of test for nonobviousness); Pet. for Cert. in *KSR Int'l Co.* v. *Teleflex Inc.*, 126 S. Ct. 327 (2005) (No. 04-1350) (requesting United States' views on test for nonobviousness). And in still other cases, the problem may lie in the need for legislation to address policy concerns that are beyond the purview of the courts. See *FTC Report* Executive Summ. at 7-8, 12-14, 15-17 (FTC's recommendations for administrative and legislative reform).

of injunctive relief. Curtailing the traditional availability of equitable relief in *those* circumstances will disrupt settled law and investment-backed expectations without solving much-mooted problems that are not presented by this case.

D. Although The Court Of Appeals Did Not Recite The Governing Equitable Principles, It Correctly Concluded That The District Court Abused Its Discretion In Denying A Permanent Injunction In This Case

The court of appeals did not recite or explicitly apply the traditional four-part test that governs the district court's exercise of equitable discretion, but it properly concluded that the district court abused its discretion by relying on inappropriate considerations in withholding equitable relief. Because this Court "reviews judgments, not statements in opinions," the court of appeals' judgment should be affirmed, and the case should be returned to the district court for entry of an appropriately tailored injunction. *E.g.*, *Johnson* v. *De Grandy*, 512 U.S. 997, 1003 n.5 (1994) (citations omitted).[22]

1. *MercExchange's Willingness to License its Patents Does Not Establish a Lack of Irreparable Harm or the Adequacy of Legal Remedies.* The district court abused its dis-

[22] There is no merit to petitioners' objection (Pet. Br. 29) that the court of appeals improperly applied a "de novo" standard of review. The Federal Circuit has made clear that it reviews a district court's grant or denial of injunctive relief under an abuse-of-discretion standard. See, *e.g.*, *Odetics*, 185 F.3d at 1272; *Johns Hopkins Univ.* v. *Cellpro, Inc.*, 152 F.3d 1342, 1354 (1998); *Jog Techs., Inc.* v. *Flakt, Inc.*, 6 F.3d 770 (Fed. Cir. 1993); *Ortho Pharm. Corp.* v. *Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992). "An abuse of discretion may be established by showing that the district court either made a clear error of judgment in weighing relevant factors, or exercised its discretion based on an error of law or on findings which were clearly erroneous." *Jog Techs.*, 6 F.3d at 772. Although the court of appeals did not explicitly state that it was applying the abuse-of-discretion standard in this case, its analysis is consistent with that standard, because the court rested its decision on the district court's legal errors in relying on improper factors and in giving potentially relevant factors undue weight. See Pet. App. 26a-28a.

cretion by accepting petitioners' submission that MercExchange's willingness to license its patents, as reflected in its public statements and commercial actions, is "sufficient" to establish that MercExchange will not "suffer irreparable harm if the injunction does not issue," Pet. App. 55a, and that monetary damages can provide "an adequate remedy at law," *id.* at 56a. A patentee's willingness to license its inventions and its behavior in doing so are not irrelevant to a district court's inquiries into "irreparable harm" and "adequacy of legal remedies," and those considerations may in some circumstances support a determination that the prerequisites for equitable relief have not been established, but they provide no basis in this case for concluding that the harm is reparable and damages will suffice.[2]

The district court's error rested in treating a patentee's willingness to provide its inventions on negotiated terms to selected licensees as surrendering more generally the patentee's statutory right to exclude others. The district court simplistically treated patent licensing agreements as merely fixing a general royalty rate for unrestricted use of the patent. But patentees frequently structure licensing agreements to accomplish a variety of purposes apart from pure remuneration for use. A patentee may seek, for example, to establish incentives for particularly profitable uses of the invention; promote widespread acceptance of the technology in order to make related products more attractive or successful; promote its own brands by requiring licensees to display its trademarks on products incorporating the licensed technology; mitigate the risk of "blocking patents" by requiring licensees

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[2] A patentee's willingness to license is most likely to be relevant when the patentee broadly engages in unrestricted, nonexclusive licensing in exchange for fixed compensation, which could suggest that the patentee may be adequately compensated, on a prospective basis, by charging the infringer an appropriate royalty. But that is not the situation here.

to grant back to the patentee a nonexclusive license to any improvements it may develop; and carefully select its licensees to protect the reputation of the products and services associated with the patent and thus with the inventor. See, *e.g.*, *Licensing Guidelines* § 2.3, at 20,733.

In this case, MercExchange's licensing agreements contained specific conditions and limitations.[24] Accordingly, MercExchange's practice of licensing, without more, does not provide an adequate basis for concluding that the harm from infringement is reparable and money damages are an adequate recompense for an infringer's unrestricted use of the patent. Pet. App. 27a. A contrary result could deter economically efficient licensing arrangements, as patentees might be unwilling to enter into individually tailored licensing arrangements if an adjudicated infringer could later seize upon their willingness to license as a basis for denying injunctive relief.[25]

2. *The Concerns Associated with Business-Method Patents Do Not Establish a Public Interest in Denying Injunctive Relief.* The district court also abused its discretion in relying on the "growing concern over the issuance of business-method patents" (Pet. App. 57a) to offset the normal understanding that the public interest favors "granting an injunction to protect the plaintiff's patent rights" (*id.* at 58a). The court of appeals correctly observed that a "general concern regarding business-method patents * * * is not the

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[24] The AutoTrader license, for example, was restricted to a particular field of use and conditioned the licensee's payment of royalties on MercExchange's prevention of infringement. See J.A. 493-512.

[25] As the court of appeals noted (Pet. App. 27a-28a), the district court also erred in relying on the plaintiff's failure to seek preliminary injunctive relief as indicative of the absence of irreparable harm (*id.* at 55a). While the preliminary injunction standard is similar to that for a permanent injunction, see note 11, *supra*, the remedies serve distinct purposes, and litigants are not obligated to seek preliminary relief to ensure their right to permanent relief. See Pet. App. 27a-28a; *Lermer Germany GmbH*, 94 F.3d at 1577.

type of important public need that justifies denying injunctive relief." *Id.* at 26a. Whatever the merits and proper scope of patent protection for business-method patents, this case presents no opportunity to consider those issues, because petitioners have not preserved a challenge to the validity of the '265 patent. In the present posture of this case, therefore, MercExchange's patent is entitled to legal protection, and the district court abused its discretion in relying on concerns about patent validity as a basis for withholding injunctive relief. While Congress could provide different forms of relief for different classes of patents, it has not done so here, and the "public interest" standard is not an adequate substitute for such targeted legislation.

Petitioners conspicuously do not defend the district court's analysis regarding business-method patents, endorsing only the "general direction" of the court's reasoning. See Pet. Br. 40. Petitioners instead suggest (*id.* at 39, 40-41, 49) that "there might not be a valid patent to vindicate" because the PTO has provisionally determined, in *ex parte* reexamination proceedings begun after the district court's judgment, that the patent claims at issue in this litigation are invalid. See generally 35 U.S.C. 301-307 (2000 & Supp. II 2002).[26] That argument, however, places inappropriate weight on the provisional results of the PTO reexamination proceedings, which have not yet culminated in a final agency decision, much less a final determination of invalidity. See 35 U.S.C. 134, 141, 306 (2000 & Supp. II 2002) (provisions governing

[26] PTO reexamination is an administrative proceeding that may, but need not, result in the limitation or cancellation of some or all of the claims in a patent. The Patent Act authorizes two types of reexamination proceedings: *ex parte* reexaminations, which permit only limited participation by a third-party requester, see 35 U.S.C. 301-307 (2000 & Supp. II 2002); and *inter partes* reexaminations, which resemble adversarial administrative litigation, see 35 U.S.C. 311-318 (2000 & Supp. II 2002). The reexamination in this case, like most reexaminations conducted by the PTO, is of the *ex parte* variety.

administrative and judicial appeals from reexamination proceedings). The mere pendency of a non-final reexamination proceeding merits no particular weight in a district court's equitable calculus under Section 283. The existence of such a proceeding by itself implies nothing meaningful about its likely outcome, and a contrary rule would needlessly encourage infringement defendants to request reexamination proceedings merely to forestall a permanent injunction. See 35 U.S.C. 302, 311 (2000 & Supp. II 2002) (authorizing third party requests for reexamination).[7]

3. *The Possibility of Contempt Proceedings Does Not Tip the Balance of Hardships in Favor of Petitioners.* The district court further abused its discretion by giving inordinate weight, in balancing the hardships between the parties, to the prospect that issuance of an injunction following contentious litigation would lead to burdensome contempt proceedings. Pet. App. 58a-59a. As the court of appeals explained, district courts adjudicating patent cases regularly encounter continuing disputes over compliance with resulting injunctions. *Id.* at 27a. It is incongruous to conclude that the prospect of such disputes favors the infringer and weighs against the issuance of otherwise warranted equitable relief. Indeed, if anything, the live prospect of future contempt proceedings would seem to bolster the case for injunctive relief. Petitioners, moreover, were found to have *willfully* infringed MercExchange's

[7] There is no question that, if the PTO reexamination proceedings culminate in a final order of invalidity, MercExchange would have no right to any remedy for infringement because there would be no valid patent to be infringed, and any injunction previously granted would be subject to vacatur. But the pendency of the ongoing proceedings has no bearing on the remedial issues before this Court. If this Court affirms the court of appeals' judgment, the district court, on remand from the court of appeals' mandate, would have discretion to consider whether to stay or condition the remedy pending the outcome of the reexamination. See *Slip Track Sys., Inc.* v. *Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed. Cir. 1998); cf. 35 U.S.C. 318 (expressly authorizing stays pending resolution of *inter partes* reexamination proceedings).

patents and therefore are in a poor posture to complain about the burdens that compliance might pose. Finally, as the court of appeals observed, in the absence of an injunction, such disputes would still "be likely to continue," but in the more burdensome form of "successive infringement actions." *Id.* at 27a. Requiring MercExchange, which proved its claim of willful infringement after protracted litigation, with the obligation to bring new infringement actions inequitably balances the hardships in this case.

4. *The District Court Retains Discretion on Remand to Accommodate the Parties' Respective Interests by Adjusting the Terms of the Injunction.* Petitioners' suggestions that the issuance of an injunction will have draconian consequences overlooks the power of the district court, on remand, to accommodate a wide variety of objections through careful formulation of the terms of an injunction. The court of appeals' judgment does not constrain the district court from exercising discretion on remand in issuing injunctive relief "on such terms as the court deems reasonable." 35 U.S.C. 283. The district court has ample discretion to accommodate petitioners' legitimate concerns without denying to the patent owner the "traditional remedy" against infringement. *Dawson Chemical*, 448 U.S. at 197; see *Hecht* v. *Bowles*, 321 U.S. 321, 329 (1944) ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it."). In this case, the court of appeals did not dictate the particular terms of an injunction, but instead—and consistent with its limited role under the abuse-of-discretion standard—reversed the district court's denial of MercExchange's motion for permanent injunctive relief and remanded for further proceedings. See Pet. App. 3a, 28a. This Court should affirm that judgment, which pre-

serves the district court's ample latitude to craft an injunction sensitive to the parties' (and the public's) legitimate concerns.

II. THIS COURT NEED NOT OVERRULE ITS DECISIONS ADDRESSING WHEN AN INJUNCTION MAY ISSUE AGAINST A PATENT INFRINGER

The Court has directed the parties to address the additional question whether the Court should reconsider its past decisions, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), that discuss the standards governing issuance of injunctive relief in patent cases. There is no warrant for this Court to overrule those decisions.

The Court's decision in *Continental Paper Bag* addresses the question whether a court may enjoin patent infringement when the patentee has "unreasonab[ly]" failed to practice its own invention. 210 U.S. at 429-430. After an extensive discussion, the Court ruled that an injunction should issue, concluding that the patentee's failure to practice its invention did not preclude it from enforcing its statutory right to exclude others from using its discovery. *Ibid.* The right to exclude others, the Court observed, is "the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." *Id.* at 429. Accordingly, the Court explained, a patentee will normally obtain equitable relief, at least in cases of continuing infringement, even if the patentee does not itself practice the invention. *Id.* at 430. Nevertheless, the Court's concluding statement left open the possibility that a case could arise "where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction." *Ibid.*

The Court's decision in *Continental Paper Bag* arguably contains questionable dicta that could be read to support an erroneous rule of automatic or nearly automatic injunctive

relief, but its central holding is sound. That holding, which the Court has repeatedly endorsed, is consistent with 35 U.S.C. 283, as well as with the collective experience of the federal courts in applying the principles of equity to patent disputes. See, *e.g.*, *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969); *Special Equip. Co.* v. *Coe*, 324 U.S. 370, 378-379 (1945); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923). Furthermore, the Court's holding is consistent with the Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676, which makes clear that no patentee otherwise entitled to relief from infringement "shall be denied relief" merely by having "refused to license *or use* any rights to the patent." 35 U.S.C. 271(d)(4) (emphasis added). Cf. *Illinois Tool Works, Inc.* v. *Indep. Ink, Inc.*, No. 04-1329 (Mar. 1, 2006), slip op. 12-13.

As the Court's final observation in *Continental Paper Bag* makes plain, that decision does not announce any categorical rule *requiring* injunctive relief in all patent cases. See 210 U.S. at 430; see also *Special Equip. Co.*, 324 U.S. at 379; *Rite-Hite*, 56 F.3d at 1547. Rather, it preserves the equity court's traditional discretion to grant or withhold injunctive relief based on application of the well-established four-factor test, subject to review for abuse of discretion. The holding in *Continental Paper Bag* is accordingly consistent with the proper outcome in this case and should not be set aside.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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No. 05-130

IN THE
Supreme Court of the United States

EBAY.COM INC. AND HALF.COM, INC.,
Petitioners

v.

MERCEXCHANGE L.L.C.,
Respondent.

On Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit

BRIEF OF THE AMERICAN BAR ASSOCIATION AS *AMICUS CURIAE* SUPPORTING RESPONDENT

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QUESTIONS PRESENTED

I. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

II. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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INTEREST OF THE AMICUS CURIAE[1]

The American Bar Association ("ABA"), with more than 407,000 members, is the leading national membership organization of the legal profession. Its members come from each of the fifty states, the District of Columbia, and the U.S. territories. Membership is voluntary and includes attorneys in private practice, government service, corporate law departments, and public interest organizations, as well as legislators, law professors, law students, and non-lawyer associates in related fields.[2] ABA members represent the full spectrum of public and private litigants, including plaintiffs and defendants.

The ABA's Section of Intellectual Property Law is the world's largest organization of intellectual property professionals, with 19,000 members including lawyers, associates, and law students. In recognition of the uniqueness of patent law, including the special importance of predictable rules governing patent claims, the ABA established the intellectual property section in 1894 as the first ABA section to deal with a special branch of the law. The Section has contributed significantly to the development of the American system for the protection of intellectual property rights. The Section comprises lawyers of diverse

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[1] Pursuant to Rule 37.6, *amicus curiae* certifies that no counsel for a party authored this brief in whole or in part and that no person or entity, other than *amicus*, its members, or its counsel, has made a monetary contribution to the preparation or submission of this brief. The parties have filed letters consenting to the filing of this brief with the Clerk of this Court.

[2] Neither this brief nor the decision to file it should be interpreted to reflect the views of any judicial member of the American Bar Association. No inference should be drawn that any member of the Judicial Division Council has participated in the adoption or endorsement of the positions in this brief. This brief was not circulated to any member of the Judicial Division Council prior to filing.

backgrounds who represent patent owners, accused infringers, individual inventors, large and small corporations, universities and research institutions across a wide range of technologies and industries.

In response to this Court's grant of certiorari in this case, the ABA Section of Intellectual Property Law proposed that a resolution opposing the positions taken by the Petitioners be adopted as the policy of the ABA. This proposal stemmed from the Section's firm belief that a patent owner's rights should not be made to depend on the nature of its patented invention or whether the patentee chooses to practice its invention or to exploit the invention through licensing or other lawful means. The Section also was concerned with the significant adverse effects that denying a permanent injunction in cases where the patentee is merely licensing or attempting to merely license its patented invention would have on existing patent licenses.[3]

SUMMARY OF THE ARGUMENT

The practicing patent bar and its clients require predictability with respect to the nature of enforcement of

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[3] At its February 13, 2006 meeting, the House of Delegates of the ABA adopted the following statement as policy of the Association:

RESOLVED, that the American Bar Association supports the granting of a permanent injunction enjoining a patent infringer from future infringement of a patent that has been adjudicated to be valid, enforceable and infringed, in accordance with the principles of equity on such terms as the court deems reasonable;

FURTHER RESOLVED, that the Association opposes consideration of the extent to which the patent owner has practiced the patented invention or has licensed others to do so, except when determining whether grant of a permanent injunction would adversely affect public safety, public welfare, the national security, or the like.

patents. Attorneys must advise clients whether to undertake the very substantial expense of bringing a patent infringement action, whether and how to defend such an action, and whether to proceed through trial rather than reach an accommodation. Given the limited duration of patents, and the potential for multiple infringers if patents are not vigorously protected, patentees must make these choices quickly and with the knowledge that failure to bring a claim may undermine the very essence and value of its patent right to exclude others from making, using, offering for sale or selling the patented invention for a limited time. 35 U.S.C. § 154(a)(1); *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-430 (1908). The ABA respectfully submits that the Federal Circuit correctly articulated the expectation of Congress and patent litigants based on over a century of decisions in holding that a patentee is entitled to a permanent injunction against an infringer absent some special circumstance. That decision should not be disturbed.

The right to permanently exclude an adjudicated infringer from continuing to practice the patented invention finds its basis in the Constitution and is a fundamental right recognized by Congress for the benefit of patentees, whether they practice their patented inventions or choose only to exploit their property rights through licensing or other lawful means. Because a patent confers no affirmative rights, without this well-established right to exclude, a patent has no intrinsic value.

Existing statutory law and the jurisprudence of this Court and the U.S. Courts of Appeals, including in particular the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"), support the granting of permanent injunctions in all cases of adjudicated infringement, except in those rare situations in which the injunction would adversely affect

public safety, public welfare, the national security or interests of similar importance to the public. The Federal Circuit applied these longstanding principles in this case. That court has not, as has been argued, adopted a *per* se or "near automatic" rule that divests the district courts of the equitable discretion provided under 35 U.S.C. § 283.

The patent statute and judicial precedent recognize that a district court must exercise discretion in deciding whether to grant or deny a permanent injunction. The Federal Circuit acknowledged that responsibility in this case. *MercExchange L.L.C. v. eBay.com Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005).

However, the district court's discretion does not extend to making policy determinations reserved to Congress. Rather, this equitable discretion is limited to historically recognized equitable considerations, not ad hoc considerations of recent vintage. Accordingly, a district court is not empowered to deny a permanent injunction based on the nature of the patented subject matter of a patent or the nature of the patentee's activities in exploiting its patent absent the presence of important public interests. Such fundamental changes to long-established rules of patent law, that have been relied upon for generations by practitioners and industry, should come from Congress and not the courts.

This case does not compel a departure from more than one hundred years of legal precedent. The private interests of adjudicated infringers and the policy arguments that Petitioners ask this Court to endorse would erode the value of patents and their attendant incentives for innovation.

Accordingly, the ABA respectfully submits that the two questions posed by the Court should be answered in the negative.

ARGUMENT

I. This Court's Longstanding Precedent Should Not Be Upset.

Patent law has been consistent and predictable in resolving the manner in which patent rights may be enforced against infringers. This consistency and predictability has been relied upon by patent practitioners in advising their clients on the acquisition and enforcement of patent rights for the last century.

Contrary to the argument of Petitioners that the Federal Circuit altered this law or adopted a new "near-automatic" rule,[4] in fact, the Federal Circuit's decision is consistent with the precedent that has been relied upon by patent practitioners for more than a century that has favored but not absolutely mandated injunctions against adjudicated infringers in patent cases. *See, e.g.,* Albert H. Walker, *Textbook of the Patent Laws of the United States of America* § 697 (1883) ("A permanent injunction follows a decision in favor of the complainant on the interlocutory hearing of a patent case, unless some special reason exists for its being refused."). *See also* John Norton Pomeroy, 4 *A Treatise on Equity Jurisprudence* § 1352 (Spencer W. Symons ed., 5th ed. 1941); William C. Robinson, 3 *The Law of Patents for Useful Inventions* § 1220 (1890).

This Court's decision in *Continental Paper Bag Co., supra,* rejected a minority view[5] that a non-practicing patentee should not be permitted to obtain an injunction

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[4] Petitioners' Merits Brief at 16.

[5] Prior to 1908 a decision not to enter a permanent injunction against an adjudged infringer was limited to "peculiar" cases. Thomas Carl Spelling, 1 *Treatise on Injunctions & Other Extraordinary Remedies* § 831 (2d ed. 1901).

against an infringer. After observing that many foreign countries had compulsory licensing requirements for non-worked patents and that Congress had chosen not to adopt such a system in this country, the Court rejected the contention that a patentee's "unreasonable nonuse" deprived it of the right to a permanent injunction. Indeed, the Court held that:

> [i]t hardly needs to be pointed out that the right [of the patentee] can only retain its attribute of exclusiveness by a prevention of its violation. *Anything but prevention takes away the privilege which the law confers upon the patentee.*

210 U.S. at 430 (Emphasis added).

In 1952, the patent statute was recodified and the injunction statute was reenacted at 35 U.S.C. § 283. As this Court noted in *Graham v. John Deere & Co.*, 383 U.S. 1, 16 (1966), such re-enactment has the effect of continuing this Court's precedent under prior statutes. Further, Congress has declined to include working requirements or compulsory licensing provisions in the patent statute in 1952 or at any subsequent time.[6] This case does not justify judicial policymaking where Congress has consistently declined to act.

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[6] The only major exception to this is the public interest. Because of the acknowledged public interest when a patent is used without authorization by or for the U.S. Government, there is never an injunction, but only reasonable compensation for such unauthorized use. 28 U.S.C. § 1498(a).

II. Absent Exceptional Circumstances, Equity Favors The Entry Of A Permanent Injunction Against An Adjudicated Infringer Of A Valid Patent.

Irreparable injury has always been assumed where a patent has been found valid and infringed. This is an outgrowth of the doctrine that the owner of a statutory privilege or franchise is presumptively entitled to an injunction against its invasion.[7] Further, a patent is a wasting asset. Because the exclusive right granted by a patent exists for a limited time only and cannot be replaced, the unauthorized denial of that limited exclusive right has been deemed to be an irreparable harm not compensable by monetary damages. *Smith Intern., Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) ("Where "validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed.").

The availability of money damages is not an adequate remedy. If the willful infringement continues beyond the judgment of validity and infringement, such damages could only be recovered in successive lawsuits and accountings or through prospective compulsory licensing – a remedy that is not authorized by 35 U.S.C. § 284.

The argument that a patentee's required recourse should be to file successive infringement actions also has historically been rejected for over a century, and no new reason exists to impose such a burden now. *See* William Robinson, 3 *The Law of Patents* § 1168 (1890) ("[A preventive injunction] removes from [the patentee] the danger of an irremediable injury, precludes the necessity of successive suits for his successive wrongs and interposes in

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[7] *Livingston v. Van Ingen*, 9 Johns. 507 (N.Y. 1812) (Kent, J.)(discussing American and English precedent regarding the availability of injunctions against violations of statutory privileges).

the path of the infringer an obstacle which he cannot overcome. It is the proper compliment of that legislative action which confers upon the inventor his exclusive privilege . . . ."); *Allington & Curtis Mfg. Co. v. Booth*, 78 F. 878, 879-80 (2d Cir. 1897) ("A decree for damages and profits in an equity cause would fall short of adequate redress to the patentee. He is entitled to an injunction as well as to an accounting of damages and profits.").[8]

When courts have denied permanent injunctive relief after an adjudication of patent validity and infringement, they have almost always done so in cases in which the patent owner's inability to supply the patented product or service would have had a substantial adverse impact on the public. *See, e.g., Rite Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)(en banc). Indeed, *Continental Paper Bag* expressly left open the "public interest" as a basis for denying an injunction against a non-practicing patentee. The private interests of the adjudicated infringer should not operate to deny the patentee the benefit of its innovation.

III. The Other Factors Suggested By Petitioners And Amici That Support Their Position Are Not Valid Equitable Considerations.

This Court should not set aside a long standing rule of equity and substitute an ad hoc policy-based rule in its stead. To do so would be contrary to the principled application of

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[8] *Id.* And as Justice Story pointed out in his treatise on equity:

> It is quite plain that, if no other remedy could be given in cases of patents and copyrights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation without ever being able to have a final establishment of his rights.

William Story, *Commentaries on Equity Jurisprudence* § 931 (1836).

standards that this Court explained in *Ford Motor Co. v. E.E.O.C.*, 458 U.S. 219 (1982):

> [W]hen Congress invokes the Chancellor's conscience to further transcendent legislative purposes, what is required is the principled application of standards consistent with those purposes and not "equity [which] varies like the Chancellor's foot." Important national goals would be frustrated by a regime of discretion that "produce[d] different results for breaches of duty in situations that cannot be differentiated in policy.

458 U.S. at 227.

Petitioners assert that this Court should reject the traditional rules of equity and adopt three classes of considerations: (1) independent subsequent discovery of the invention; (2) discrimination against certain types of non-practicing users and (3) defenses based upon perceived failings of the U. S. Patent & Trademark Office ("USPTO"). The Court should decline this invitation.

A. Congress Has Exclusive Authority To Establish New Equitable Defenses That Did Not Exist At Common Law.

In *Northwest Airlines, Inc. v. Transport Workers Union of America, AFL-CIO*, 451 U.S. 77 (1981), this Court held that equitable considerations are properly addressed to Congress, not to the federal courts, because Congress is better able to evaluate policy considerations regarding recognition of new equitable defenses:

> [T]he equitable considerations advanced by Petitioners are properly addressed to

> Congress, not to the federal courts. Congress is best able to evaluate these policy considerations:
>
> [T]he claim now asserted, though the product of a law Congress passed, is a matter on which Congress has not taken a position. It presents questions of policy on which Congress has not spoken. The selection of that policy which is most advantageous to the whole involves a host of considerations that must be weighed and appraised. That function is more appropriately for those who write the laws, rather than for those who interpret them."

451 U.S. at 88, n.41; *See also Grupo Mexicano De Desarrollo, S.A., v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 333 (1999) ("The debate concerning this formidable [equitable] power [a *Mareva* injunction] over debtors should be conducted and resolved where such issues belong in our democracy: in the Congress.").

B. Independent Discovery Without Notice Of The Patent And A "Close Case Of Infringement" Are Not Viable Equitable Defenses.

The Court should reject the suggestion that no injunction should issue if the defendant begins its infringement without knowledge of the patent or if there is a "close" case of infringement. Patent infringement is a strict liability offense and a person can be found liable as an infringer even without knowledge of the patent. *See* 35 U.S.C. § 271. Further, neither of these considerations is a valid legal defense under current law. This Court should not recognize new defenses in equity where none exists at law.

C. General Issues Relating To Patent Quality Are Not Valid Reasons To Refuse An Injunction Upon A Patent That Has Been Found Valid And Infringed.

The ABA, like some other amici in this case, has been actively working with Congress and the USPTO to improve patent quality. The ABA shares the concerns of the other amici regarding patent quality. However such general considerations are irrelevant when applied to an issued patent, which is entitled to a presumption of validity under the patent laws. 35 U.S.C. § 282. Moreover, by the time a court considers granting a permanent injunction, it will already have determined that the patent is valid and infringed after rigorous *inter partes* proceedings.

A belief that the USPTO is not properly performing its duties is not a valid basis for denying injunctive relief. Such issues go far beyond the case and controversy before the district courts, which are not charged with overseeing the operations of agencies of the executive branch of government, such as the USPTO.

D. Whether To Limit The Availability Of Injunctive Relief To Certain Classes Of Patentees Is A Decision Reserved To Congress.

Whether injunctions should be limited to certain patentees is an issue for Congress – not the courts. In essence, Petitioners and the amici who support them request that this Court set forth a basis for discriminating between two classes of patentees.

Some amici suggest that non-practicing patentees do not promote the progress of the useful arts and are therefore not entitled to the benefit of an injunction. Implicit in this suggestion is a contention that any non-practicing entity that

seeks to enforce its patent rights is abusing the patent system. This is not true.

Individuals, businesses, and academic institutions throughout this country make inventions, patent those inventions, and seek the patent system's financial incentives by licensing or attempting to license their patented inventions rather than making and selling their inventions on their own.[9]

The denial (or unavailability) of a permanent injunction against future infringement to such persons adversely affects both the royalty that prospective licensees will be willing to pay for a negotiated license and the "reasonable royalty" that a court will be willing to award pursuant to 35 U.S.C. § 284. Without the threat of an injunction, a would-be infringer has little incentive to avoid infringement or to settle a patent infringement case after infringement has begun. Indeed, the would-be-infringer may even be encouraged to attempt any potential defense knowing that if he loses, he only risks being required to pay a reasonable royalty.

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[9] Many colleges and universities earn considerable royalties from their intellectual property. For example, Harvard University reported earning $23.7 million in royalty fees from its intellectual property in fiscal year 2004, *see* Harvard University, Office of Technology Development (OTD), *Annual Report to the Committee on Patents and Copyrights Fiscal Year* 2004 5 (2005), while the University of Michigan reported royalty earnings of $16.7 million. *See* University of Michigan Tech Transfer, 2005 *Annual Report* 1 (2005).

Smaller universities also benefit greatly from the royalty income generated from their intellectual property. For example, Case Western Reserve University in Cleveland, Ohio, reported royalty earnings of $8.4 million between July 1, 2004 and June 30, 2005. *See* Case Western Reserve University, *Technology Transfer Office 2005 Annual Report* at 5 (2005). These universities engage in significant basic scientific and technical research. If their ability to license their technologies is diminished, their incentive to conduct research may also be diminished, and the public will suffer as a result.

Attacks by defendants upon allegedly unscrupulous patent enforcers have been a part of the patent system since its inception. The 1836 Patent Act, which created the Patent Office, explained that it was enacted to remedy "evils which necessarily result[ed] from the [1793 statute]" including "worthless and void [patents]" and "a great number of lawsuits . . . which are onerous to the courts, ruinous to the parties and injurious to society."[10]

In 1883, Justice Bradley's opinion in *Atlantic Works v. Brady*, 107 U.S. 192 (1883) attacked "speculative schemers [patentees that obtain patents] which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the art." *Id.* at 231. Congress has been well aware of these issues for a very long time, but has not acted. Congress' long silence on the subject of non-practicing patentees speaks loudly to this issue.

For the last year, Congress has been debating legislation to alter the patent system. Indeed, the Senate Judiciary Committee held a hearing directed to the specific issue now before this Court.[11] An early draft of pending legislation contained a provision that would have substantially amended § 283. However, this provision was eliminated from the pending legislation based on input from industry groups, bar associations, and other interested parties.

Many of the amici in this case have participated in the debate over the pending patent reform effort. These parties

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[10] Senate Report Accompanying Senate Bill 239, 24th Congress, 1 Session (*Chisum on Patents* Appendix 12 at 4).

[11] Hearing of Senate Judiciary Committee, Subcommittee on Intellectual Property, *Patent Law Reform: Injunctions and Damages* (June 14, 2005).

now seek to obtain from this Court the relief that they apparently were unable to obtain from Congress.

In *Northwest Airlines*, the petitioners requested that this Court recognize a new equitable defense. This Court, declined the invitation in that case, and it should decline the invitation in this case as well and defer to Congress on this issue.

IV. There Would Be Significant Consequences If This Court Changes The Current Standard For Granting Injunctions.

All patent licenses (since at least as early as this Court's 1908 ruling in the *Continental Paper Bag* case) have relied upon the general rule that a patentee – even one who is merely licensing, or is trying to merely license, his patented invention – is entitled to a permanent injunction against an adjudicated infringer. A change in that venerable general rule would have profound, immeasurable economic consequences on existing and future patent licenses. The judiciary is ill-equipped to decide whether the public interest would be better served by preserving or changing that general rule which has provided the economic foundation for patent licenses for a century or more.

A. There Would Be Significant Adverse Consequences To Existing Exclusive Licenses.

With respect to existing exclusive licenses, the inability of a patentee to get a permanent injunction – after his patent has been held valid, enforceable, and infringed – would eliminate the exclusivity that was the very foundation of the exclusive license. Because exclusive license royalties (lump sum, running royalty, or combination) are higher than nonexclusive license royalties, the effect on existing exclusive licenses would be pronounced if the exclusivity

were eliminated by the inability of the patentee to permanently enjoin an infringer. For example, the exclusive licensee might then seek to rescind the license and/or obtain a partial or total refund, issues that are currently unaddressed. An abrupt change in the law would be chaotic for existing exclusive licenses negotiated under the long standing general rule that a non-practicing patentee is entitled to a permanent injunction against an adjudicated infringer.

B. There Would Be Significant Adverse Consequences To Existing Nonexclusive Licenses.

An abrupt change in the law would be equally chaotic for existing nonexclusive licenses negotiated under the long standing general rule that a non-practicing patentee is entitled to a permanent injunction against an adjudicated infringer. If a non-practicing patentee cannot get a permanent injunction against an adjudicated infringer, would the patentee lose his royalty streams from existing nonexclusive licensees? What would be the effect on the agreed royalty rate (lump sum, running royalty, or combination) if the patentee could not obtain a permanent injunction against an adjudicated infringer?

Existing nonexclusive licenses typically have a most-favored-licensee clause that prevents a licensor from granting subsequent licenses on more favorable terms than those of the original licensee. Such licenses also often require a licensor to notify the original licensee of subsequent licenses and allow the licensee to substitute the more favorable terms for the terms in its original license.[12] Some, if not many or most, nonexclusive licenses include a provision allowing the licensee to notify the patentee of substantial infringing competition and to pay royalties into escrow if the patentee

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[12] *See* David Epstein, 1 *Eckstrom's Licensing in For. & Dom. Ops.* § 3.40 (2005).

does not abate the infringing competition – so that the nonexclusive licensee is not indefinitely subjected to unfair competition from an infringer who is paying no royalty.[13]

If implemented, the changes advocated by Petitioners and the amici who support them would produce uncertainty and result in the devaluation of existing and future patent license rights. Patent practitioners must have certainty to be able to advise their clients in advance of deciding whether to pursue litigation or to grant or accept a patent license. Without the certainty that an adjudicated infringer will be enjoined, the ability to advise clients regarding such matters will be severely compromised. The essence of a patent right is the right to exclude others. Deprived of that right, a patent retains little value.

C. A Change In The General Rule Will Lead To Additional Litigation And Promote Forum-Shopping.

In addition to devaluing patent rights, changing the standard for injunctive relief would also lead to more litigation and a greater likelihood of forum-shopping. The real threat of a permanent injunction is a major factor that currently must be considered in evaluating the risks of continued litigation of any suit for patent infringement. The risk of a permanent injunction might cease to be a consideration – especially if this Court were to declare "close infringement" or "independent creation" viable defenses to an injunction. As a result, defendants would be more inclined to "roll the dice" and litigate such cases to judgment, rather than entertain possible settlement, if they believed that the worst case scenario would merely require a royalty payment.

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[13] Harold Einhorn & Thomas J. Parker, 1 *Patent Licensing Transactions* § 2.16 (2005 ed.).

Permitting district courts to consider a wide variety of new factors in deciding whether to impose an injunction would also create an incentive for patentees to "forum-shop" and file lawsuits in those jurisdictions where the bench is thought to favor permanent injunctions against infringers. This would have the effect of undoing one of the goals for which the Federal Circuit was created, the elimination of forum-shopping in patent cases.[14]

CONCLUSION

For the reasons set forth above, the ABA respectfully submits that the Court should affirm the judgment of the United States Court of Appeals for the Federal Circuit.

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[14] House Report No. 97-312, 97th Cong. 1st Sess. (1981)(reprinted in *Chisum on Patents* at A21-7 to A21-11).

(120)

No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF OF AMERICAN INNOVATORS' ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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BRIEF OF AMERICAN INNOVATORS' ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

INTEREST OF *AMICUS CURIAE*[1]

The American Innovators' Alliance ("Alliance") is a coalition of United States high-technology companies that includes Intel Corporation ("Intel"), Micron Technology, Inc. ("Micron"), Microsoft Corporation ("Microsoft"), and Oracle Corporation ("Oracle"). As innovators and intellectual property holders in the software and hardware industries, the Alliance's members rely upon the protections of the United States patent laws and believe that a strong patent system is important to the vitality of today's expanding knowledge-based economy. The Alliance's members are concerned, however, that the Federal Circuit's automatic-injunction rule in patent infringement actions discourages investments by the most innovative creators and implementers of technology, and ultimately reduces competition to the detriment of consumers.

Intel is the world's largest semiconductor manufacturer and is also a leading manufacturer of computer, networking, and communications products.

Micron is one of the world's leading semiconductor manufacturers. It produces an array of memory storage devices and image sensors, and its products can be found in everything from personal computers to digital cameras and network servers.

Microsoft is the world's largest software company. It provides support for virtually every type of computing de-

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[1] Pursuant to this Court's Rule 37.3(a), letters of consent from all parties to the filing of this brief have been submitted to the Clerk. Pursuant to this Court's Rule 37.6, *amicus* states that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than *amicus* or its counsel made a monetary contribution to the preparation or submission of this brief.

vice, including servers, personal computers, and home entertainment systems. Its products include the Windows operating system and the Xbox videogame system.

Oracle is a global leader in information management. It sells software and services that enable organizations to manage their businesses worldwide. Oracle was among the first software companies to make its applications available over the Internet.

Together, the members of the Alliance have more than 210,000 employees and a market valuation of more than $480 billion.

The members of the Alliance each hold numerous patents. Indeed, Intel and Micron were among the ten most-prolific producers of patents in the United States in 2004 and 2005. Because the Alliance's members frequently litigate patent infringement suits as both plaintiffs and defendants, they have a vital interest in ensuring that the patent laws are applied in a manner that strikes a reasonable balance between protecting property rights and promoting innovation. The members of the Alliance believe that the Federal Circuit's automatic-injunction rule upsets the balance that Congress struck in the Patent Act, tipping the scale in favor of non-practicing patent holders, with deleterious effects on innovation.

STATEMENT

1. This case has profound implications for technological innovation in the United States. The patent system is the foundation for the United States's global leadership position in technological development. The promise of a patent and possible royalty payments affords inventors a significant incentive to pursue new discoveries. These incentives flourished where courts applied traditional equitable principles to ensure that patent laws were enforced in a manner that "promote[d] the Progress of Science and the useful Arts," U.S. Const. art. I, § 8, and awarded injunctions only after carefully

considering the public interest considerations at stake. Recently, however, the Federal Circuit has opened the door to abusive patent litigation by replacing traditional equitable principles with an inflexible and sweeping presumption that an injunction will issue virtually automatically against any patent infringer. Under this regime, patent rights actually stifle innovation and significantly reduce incentives to invest in manufacturing and research-and-development efforts in the United States.

The Federal Circuit's automatic-injunction rule is contrary to the plain language of the patent laws. The original Patent Act of 1790 authorized only damages and forfeiture remedies for infringement. 1 Stat. 109. The Patent Acts of 1793, 1 Stat. 318, and 1800, 2 Stat. 37, altered the measure of damages, but still did not provide for injunctive relief. In 1819, Congress gave trial courts the discretion to issue patent injunctions in accordance with the traditional principles of equity:

> [Federal courts] shall have authority to grant injunctions, *according to the course and principles of courts of equity*, to prevent the violation of the rights of any authors or inventors secured to them by any laws of the United States, *on such terms and conditions as the said courts may deem fit and reasonable*[.]

3 Stat. 481, 481-82 (1819) (emphases added). This provision, with only cosmetic alterations, has survived to this day and continues to treat injunctions as a discretionary remedy, to be issued in accordance with traditional equitable principles: "[The federal courts] may grant injunctions *in accordance with the principles of equity* to prevent the violation of any

right secured by patent, *on such terms as the court deems reasonable*." 35 U.S.C. § 283 (emphases added).[2]

Section 283 reflects the long-standing rule that an injunction "is not a remedy which issues as of course." *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311 (1982) (internal quotation marks omitted). The basis for injunctive relief "has always been irreparable injury and the inadequacy of legal remedies." *Id.* at 312. But even when those factors are present, injunctions do not issue automatically. Courts of equity must also consider "the public consequences in employing the extraordinary remedy of injunction." *Id.* "Flexibility rather than rigidity" is the hallmark of equitable relief. *Id.* (quoting *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944)).

2. Petitioners eBay, Inc., ("eBay") and Half.com, Inc., ("Half.com") operate websites that allow sellers to list various goods, and buyers to search and purchase those goods. Although eBay is best-known for its auction feature, eBay's website also allows buyers to purchase selected goods at a fixed, listed price. eBay gives sellers the option of a traditional auction that runs for several days, a fixed-price immediate sale, or a hybrid that includes a multi-day auction and a "Buy Now" option at a higher price for immediate sale. Half.com, a wholly owned subsidiary of eBay, also offers fixed-price purchases on its website.

MercExchange, L.L.C., ("MercExchange") exists solely to license patents. It neither practices its patents nor engages in any other line of business. Pet. App. 54a. It holds two valid patents pertaining to fixed-price sale technology.

3. MercExchange filed suit against eBay and Half.com in the United States District Court for the Eastern District of

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[2] Legislative history further confirms that section 283 simply restated then-existing law. *See* S. Rep. No. 1979, at 2423 (1952) (Section 283 "is the same as the provision which opens [Revised Statutes] 4292 with minor changes in language").

Virginia, alleging willful infringement of three patents. Pet. App. 54a. Before trial, the district court found that one patent was invalid because of an inadequate written description. A trial was conducted on MercExchange's claims of infringement under the two remaining patents, and a jury found eBay and Half.com liable. Pet. App. 29a. The jury assessed $10.5 million in damages against eBay and $19 million against Half.com. Pet. App. 2a-3a.

Upon the finding of infringement, MercExchange sought a permanent injunction prohibiting eBay and Half.com from further infringing upon its patents. The district court weighed the traditional factors governing injunctions, including (1) irreparable injury, (2) the adequacy of a remedy at law, (3) the public interest, and (4) the balance of hardships. Pet. App. 52a-59a. On the basis of that multifactor inquiry, the district court determined that an injunction was not warranted. Pet. App. 59a. The court concluded that MercExchange would not suffer irreparable injury in the absence of a permanent injunction because it did not practice the patents itself but instead had publicly acknowledged that it intended to license them. Pet. App. 54a-55a. The district court also found that money damages could make MercExchange whole and that it therefore had an adequate remedy at law. Pet. App. 56a. The district court further determined that the public interest factor was equally balanced between the plaintiff and the defendants because the traditional interest in protecting patent holders' rights was offset by the growing concern over the rising number of business-method patents. Pet. App. 57a-58a. Finally, the court found that the balance of hardships "tip[ped]" slightly in favor of the defendants. Pet. App. 57a-59a.

The Federal Circuit affirmed the finding that eBay and Half.com had infringed the patents held by MercExchange. The Federal Circuit also held—without reference to the traditional four-factor inquiry—that the district court abused its discretion when it denied MercExchange's request for injunc-

tive relief. The court of appeals therefore reversed the district court's order denying a permanent injunction. The court premised its decision on what it identified as the "general rule . . . that a permanent injunction will issue once infringement and validity have been judged." Pet. App. 26a (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). The court of appeals stated that the strong presumption in favor of issuing an injunction could be overcome only in "rare instances," as where "an important public need, such as . . . public health," requires that the infringing product or process continue to be marketed. Pet. App. 26a (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)). Finding that no such "important public need" required that eBay and Half.com be permitted to continue to practice MercExchange's patented business method, the Federal Circuit directed the district court to enter a permanent injunction in favor of MercExchange.

In reaching this conclusion, the Federal Circuit dismissed the possibility that the proliferation of business-process patents had any cognizable impact on the public, stating simply that "this is not the type of important public need that justifies the unusual step of denying injunctive relief." Pet. App. 26a. The court also noted that MercExchange's professed willingness to license its patents and its lack of intent to practice its patents should not "deprive it of the right to an injunction to which it is otherwise *entitled*." Pet. App. 27a (emphasis added). The Federal Circuit's opinion makes clear that, in patent cases, the court has discarded the four-factor test traditionally used to evaluate requests for injunctive relief and replaced it with a "presumption" that patentees are "entitled" to a permanent injunction in all but the most "exceptional" circumstances.

SUMMARY OF ARGUMENT

For centuries, the patent laws have encouraged useful innovation and discovery, fostering both the Industrial Revolu-

tion and the computer age. But the Federal Circuit's automatic-injunction rule has transformed patents into a powerful tool for litigation abuse. By disregarding traditional equitable considerations such as the balance of hardships and the public interest, the Federal Circuit has made it possible for one patent—no matter how trivial—to be used to shut down an entire business. Such a possibility disrupts the careful balance embodied in the Patent Act. Ultimately, it stifles innovation and poses a significant threat to high-tech businesses and the strength of the U.S. economy as a whole.

The problem of patent abuse is not a recent development. Indeed, the historical prevalence of such abuse played a significant role in the emergence of modern-day patent law. In seventeenth-century England, the Crown was willing to sell to the highest or most favored bidder a monopoly on almost any "invention," and patents thus became associated with corruption. The Founders were well aware of this history and were wary of the potential for abuse inherent in any monopoly. The Founders therefore believed that patents should be granted only when necessary to "promote the Progress of Science and the useful Arts." U.S. Const. art. I, § 8. Accordingly, early patent statutes did not authorize courts to issue injunctions as a remedy for infringement.

When Congress finally granted courts the potent power to issue injunctions as a remedy against patent infringement, it explicitly required courts to consider traditional equitable principles when contemplating use of that power. Because early American courts understood that patents existed to serve the public interest by encouraging innovation, they denied injunctive relief when it would have imposed a sanction disproportionate to the infringer's culpability or the harm inflicted on the patentee.

The Federal Circuit's automatic-injunction rule is flatly contrary to the text and evident purpose of Section 283, which afforded courts the power to grant injunctive relief, but

also required that such relief be granted only in accordance with principles of equity. The Federal Circuit's stated basis for its automatic-injunction rule—that property rights must necessarily be protected by injunctions—fails because patents are personal property and neither the patent laws nor the common law has ever afforded holders of personal property an entitlement to injunctive relief to cure a trespass. To the contrary, injunctions to protect personal property are considered an extraordinary form of relief and are now—as they have always been—exceedingly rare.

Moreover, the Federal Circuit's abandonment of traditional equitable principles and its resultant disruption of the balance struck by Congress stifles innovation by exacerbating the serious and growing problem of patent "hold-ups." In a patent hold-up, a patent holder threatens to obtain an injunction to shut down an established product line or business. The injunction, or threat of an injunction, enables the patentee to hold an infringer hostage and extract a licensing fee that far exceeds the invention's actual value. The knowledge that an injunction will issue automatically, without regard to the circumstances, has dramatically increased the rewards for initiating a patent hold-up and emboldened patentees to exploit their patents through litigation rather than development and investment. Only restoration of the primacy of traditional principles of equity can restore the balance between the rights of patent holders and the social benefits to be garnered through innovation.

The decision below should be reversed.

ARGUMENT

I. PATENTS WERE HISTORICALLY VIEWED AS A LIMITED RIGHT DESIGNED TO PROMOTE INNOVATION.

Much of American patent law—including the provision at issue in this case—dates back to the first few decades of the Nation's existence. The English legal principles and his-

torical experiences that served as the backdrop to enactment of both the Patent Clause and early patent laws therefore shed significant light upon the drafters' intentions. Indeed, many early Americans—like their English counterparts—were deeply suspicious of all monopolies, including patents. These sentiments resulted in a carefully circumscribed system of patent rights and remedies designed to promote innovation and minimize abuse.

A. Common-Law Courts Were A Check Upon Rampant Patent Abuse.

In seventeenth-century England, patents were issued at the discretion of the Crown, which inevitably led to all manner of abuse. *See* Frank D. Prager, *Historic Background and Foundation of American Patent Law*, 5 AM. J. LEGAL HIST. 309, 309-12 (1961). The Crown defined the concepts of "discovery" and "invention" loosely, and, at various points in time, granted monopolies of trade in such commodities as sweet wine, salt production, knife handles, and playing cards. Ramon A. Klitzke, *Historical Background of English Patent Law*, 41 J. PAT. & TRADEMARK OFF. SOC'Y 615, 626-35 (1959). Many patents were issued for "purely mercenary reasons, [such as] attempting to obtain either a cash payment or a share of the profits from a grant," and the "monopoly system became a system of plunder." *Id.* at 644; *see also* Thomas A. Hill, *Origin and Development of Letters for Patent for Invention*, 6 J. PAT. & TRADEMARK OFF. SOC'Y 405, 407 (1923-24) (patents were frequently abused, and granted for the Crown's profit or even to "courtiers and favorites").

This history of abuse generated a deep public hostility toward patents. 1 WILLIAM ROBINSON, THE LAW OF PATENTS § 14, at 20 (1890). "The inventor was looked upon as a monopolist, dependent for his exclusive rights upon the royal bounty; and his privileges were rigidly confined within the literal meaning of the words by which they were described in his patents." *Id.* § 14, at 21.

Despite this hostility, there was an underlying recognition that patents, properly confined, could serve the public by encouraging innovation and—to that end—Parliament enacted the Statute of Monopolies to rein in the proliferation of patents. Enacted in 1624, the Statute explicitly recognized that an incentive for "true and first inventor[s] and invention[s]" was in the public interest because it encouraged innovation. Hill, *supra*, at 416 (quoting the Statute of Monopolies). The Statute also established the fundamental principle that common-law courts would determine the validity of patents. Thus, although the issuance of patents remained in the monarch's hands, only common-law courts could protect the patentee's rights and determine the appropriate remedy. Klitzke, *supra*, at 649. By controlling the validity and scope of patents and the remedies available, the courts could guard against the excesses that accompanied the ever-growing number of patents.

When adjudicating patent disputes, English common-law courts were guided by the principle that the patent must serve the public interest. The courts developed a number of tests to promote the public interest, such as requiring that a patent actually state a discovery or invention, an early form of the novelty requirement. E. Wyndham Hulme, *The History of the Patent System Under the Prerogative and at Common Law*, 12 L.Q. REV. 141, 151 (1896). Foreigners who brought innovations to England and sought protection from English courts were often required to take on English apprentices to ensure domestic dissemination of the innovation. *Id.* at 145. Moreover, a patent that was not "worked," or put into use, could be voided for failure to provide a public benefit. Klitzke, *supra*, at 643; *see also* E. Wyndham Hulme, *On the Consideration of the Patent Grant Past and Present*, 13 L.Q. REV. 313, 315-17 (1897) (discussing the revocation of a patent for failure to work the patent within one year). This requirement grew out of the recognition that an invention that

lay fallow necessarily failed to benefit the public. Klitzke, *supra*, at 643.

The English courts also protected the public interest through a flexible remedial scheme. "When a party applie[d] for the aid of the court, [in a patent case], . . . great latitude and discretion [were] allowed to the court in dealing with the application." *Bacon v. Jones*, 4 Mylne & Craig 433, 436 (1839) (quoted in 2 JOSEPH STORY, COMMENTARIES ON EQUITY JURISPRUDENCE, AS ADMINISTERED IN ENGLAND AND AMERICA § 934, at 122 n.3 (rev. ed. 1877) [hereinafter STORY, COMMENTARIES ON EQUITY]). The courts possessed the discretion to develop remedies specific and appropriate to the facts of each case. *Id.*

B. The Founders Shared The English Suspicion Of Monopolies.

Like their English counterparts, early Americans had an "instinctive aversion to monopolies." *Graham v. John Deere Co.*, 383 U.S. 1, 7 (1966). This suspicion was grounded in experience—both the English Crown and the colonial governments granted monopolies to favored interests, in a practice that was widely considered corrupt. The Framers' decision to authorize Congress to "secur[e] for limited Times to . . . Inventors the exclusive right to . . . Discoveries," U.S. Const. art. 1, § 8, therefore met with sharp criticism from those Americans who viewed all monopolies with disdain. George Mason, one of Virginia's delegates to the Constitutional Convention, identified Congress's authority to "grant monopolies in trade and commerce" as one of the reasons for his refusal to sign the Constitution. 2 AMERICAN MUSEUM, at 534-36 (1787). The New York constitutional ratifying convention urged that the Constitution be amended to provide "[t]hat the congress [may] not grant monopolies, or erect any company with exclusive advantages of commerce." 4 AMERICAN MUSEUM, at 156 (1788). Massachusetts, New Hampshire, and North Carolina also urged an amendment to

strip Congress of the power to create monopolies. 6 AMERICAN MUSEUM, at 303 (1789).

Thomas Jefferson, who—at least at the time of the Founding—was deeply distrustful of patents, explained that "[t]hough the interposition of government, in matters of invention, has its use, yet it is in practice so inseparable from abuse, that [Americans] think it better not to meddle with it." Letter from Thomas Jefferson to Jeudy de L'Hommande (Aug. 9, 1787), *in* 12 THE PAPERS OF THOMAS JEFFERSON 11 (Julian P. Boyd et al. eds., 1956). After the Constitution had been ratified, Jefferson advocated an amendment to remove congressional authority to issue patents. *See* Letter from Thomas Jefferson to James Madison (July 31, 1788), *in* 1 THE REPUBLIC OF LETTERS 545 (James Morton Smith ed., 1995) ("[T]he benefit even of limited monopolies is too doubtful to be opposed to that of their general suppression.").

Even after the Constitution was ratified, the Founders' antipathy for monopolies led them to explore means other than patents to encourage innovation. Alexander Hamilton, for example, proposed using "pecuniary rewards" as an alternative to granting patents. *See* Edward C. Walterscheid, *Patents and Manufacturing in the Early Republic*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 855, 861-63 (1998). President Washington embraced that idea, and urged Congress to establish Boards to award direct payments for agricultural innovations. George Washington, *Eighth Annual Message to Congress* (Dec. 7, 1796), *in* GEORGE WASHINGTON'S WRITINGS 978, 982 (John H. Rhodehamel ed., 1997). This alternative proposal for rewarding innovation gained little support, however, because the new federal government was still short of money, and patents had the virtue of costing nothing. EDWARD C. WALTERSCHEID, THE NATURE OF THE INTELLECTUAL PROPERTY CLAUSE: A STUDY IN HISTORICAL PERSPECTIVE 91-92 (William S. Hein & Co. 2002).

Ultimately, Congress settled upon a system of patents to reward inventors, embracing patents for the same reason as the English: patents, properly regulated, serve the public interest by promoting discovery and innovation. As Justice Story explained:

> [The Patent Clause] was beneficial . . . to the public, as it would promote the progress of science and the useful arts, and admit the people at large, after a short interval, to the full possession and enjoyment of all writings and inventions without restraint.

3 JOSEPH STORY, COMMENTARIES ON THE CONSTITUTION OF THE UNITED STATES § 1147, at 48-49 (1833) [hereinafter STORY, COMMENTARIES ON THE CONSTITUTION].

Even Jefferson eventually came to recognize the public benefits that derive from patents, explaining that patents are an "encouragement to men to pursue ideas which may produce utility." Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), *in* XIII THE WRITINGS OF THOMAS JEFFERSON 334 (Andrew A. Lipscomb et al. eds., 1903).[3] At the time, however, patents were viewed as conveying the exclusive right to the *profits* from an invention, not necessarily the exclusive right to *use* an invention. *See* Robinson, *supra*, § 898 ("The interest of the patentee is represented by the emoluments which he does or might receive from the practice

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[3] By this time, Jefferson spoke as the chief architect of the American patent system. Ironically, after initially opposing the Patent Clause altogether, Jefferson went on to be "the first administrator of our patent system" and its "moving spirit." *Graham*, 383 U.S. at 7 (internal quotation marks omitted). As Secretary of State, Jefferson, along with the Secretary of War and the Attorney General, was responsible for issuing the first United States patents. *Id.* Jefferson was not merely an administrator; he advanced developments in patent law that are still in practice today, such as the novelty and non-obviousness requirements. *Id.* at 7-8. He also played a key role in the drafting of the first patent statute, the Patent Act of 1790, and was a noted inventor himself. *Id.* at 7.

of the invention by himself or others."). As Jefferson explained, "[s]ociety may give an exclusive right to the *profits* arising from [patents], as an encouragement to men to pursue ideas which may produce utility." XIII THE WRITINGS OF THOMAS JEFFERSON, *supra*, at 333-34 (emphasis added); *see also* 3 STORY, COMMENTARIES ON THE CONSTITUTION § 1147, at 49 ("[T]he only boon, which could be offered to inventors to disclose the secrets of their discoveries, would be the exclusive right and profit of them, as a monopoly for a limited period.").

The Founders therefore carefully tailored early patent laws to extend monopolies only as far as necessary to foster innovation. The Federal Circuit's automatic-injunction rule disregards the Founders' emphasis on "promot[ing] the Progress of Science," U.S. Const. art. I, § 8, and instead has had the effect of rewarding companies that amass patents without having any intention of actually practicing them. Far from promoting scientific progress, injunctions in favor of such patent holders stifle innovation by effectively placing patented technology out of the reach of both researchers and the public. Neither the Constitution's Framers nor the drafters of 35 U.S.C. § 283—all of whom were keenly aware of the dangers associated with monopolies—would have intended for patent rights to impede technological progress or economic development.

II. THE FEDERAL CIRCUIT'S AUTOMATIC-INJUNCTION RULE DISREGARDS FUNDAMENTAL PRINCIPLES OF EQUITY.

In 1819, when Congress afforded courts the discretion to issue injunctions in patent cases, it explicitly linked such relief to traditional equitable principles. 3 Stat. 481, 481 (1819) ("the circuit courts of the United States . . . shall have authority to grant injunctions, according to the course and principles of courts of equity, to prevent the violations of the rights of any authors or inventors"). Under those principles, an injunc-

tion would issue in patent cases only when it was the most appropriate means of achieving justice between the parties and promoting the public interest. Certainly, a patent holder did not have an automatic right to injunctive relief against an infringer. As Justice Story stated, "In cases . . . where a patent has been granted for an invention, it is not a matter of course for courts of equity to interpose by way of injunction." 2 STORY, COMMENTARIES ON EQUITY § 934, at 121-22. In determining whether to grant an injunction, Justice Story continued, a court should consider whether "the patent has been granted for some length of time"; whether "the patentee has put the invention into public use"; and whether the patentee "has had an exclusive possession of it under his patent for a period of time." *Id.*

The Federal Circuit's automatic-injunction rule disregards both this history and the statutory command of 35 U.S.C. § 283 that courts issue injunctions only in accordance with equitable principles. In place of the traditional equitable factors, the Federal Circuit has substituted what it refers to as the "general rule . . . that a permanent injunction will issue once infringement and validity have been judged." Pet. App. 26a. In so doing, the Federal Circuit has inverted the traditional test by requiring there to be "exceptional" circumstances justifying "depriv[ing]" the patent holder of a "right to an injunction" to which it is purportedly "entitled." Pet. App. 26a-27a. Such an approach finds no support in either this Court's jurisprudence or historically rooted notions of equity.

A. This Court Has Consistently Rejected Lower-Court Efforts To Promulgate Automatic-Injunction Rules.

This Court has repeatedly emphasized that automatic-injunction rules are incompatible with the case-by-case inquiry demanded by traditional equitable principles. In *Hecht Co. v. Bowles*, 321 U.S. 321 (1944), for example, this Court

held that violations of the Emergency Price Control Act were not automatically subject to an injunction. The Act imposed price controls in response to widespread shortages and inflation sparked by World War II. The Act provided that, upon a violation, "a permanent or temporary injunction, restraining order, or other order *shall* be granted without bond." *Id.* at 322 (quoting the Emergency Price Control Act of 1942, 56 Stat. 23) (emphasis added). Despite the dire economic situation, and the seemingly mandatory language of the Act, this Court refused to countenance an automatic-injunction rule or even a presumption in favor of an injunction.

Effectively requiring a clear statement by Congress to override long-standing principles of equity, this Court declared:

> We cannot but think that if Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made . . . . We are dealing here with the requirements of equity practice with a background of several hundred years of history.

Hecht Co., 321 U.S. at 329. The "essence of equity jurisdiction," the Court continued, "has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it." *Id.*

In *Amoco Production Co. v. Village of Gambell*, 480 U.S. 531 (1987), this Court reaffirmed *Hecht*'s conclusion that automatic-injunction rules cannot be reconciled with traditional equitable principles. *Amoco* reversed a Ninth Circuit decision holding that "injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances." *Id.* at 541 (internal quotation marks omitted). Although this Court agreed with the Ninth Circuit that environmental damage is, "by its nature," often

irreparable, it nevertheless deemed the Ninth Circuit's presumption in favor of injunctive relief to be "contrary to traditional equitable principles." *Id.* at 545. The Court explained that courts considering whether to grant injunctive relief must undertake a fact-specific balancing of traditional equitable factors.

Similarly, in *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), this Court reversed a First Circuit decision that entered an injunction after finding a violation of the Clean Water Act. At issue were recurring United States naval training exercises on the Puerto Rican island of Vieques. These exercises resulted in live fire rounds and ordnance being dropped on beaches and into the waters off the island's coast. *Id.* at 307. Despite the government's concession that the Clean Water Act's plain terms had been violated, this Court relied upon *Hecht* to hold that "a federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law." *Id.* at 313. The Court explained that "[a]n injunction [wa]s not the only means of ensuring compliance" with the Clean Water Act because the Act provided for fines and criminal penalties. *Id.* at 314.

The Federal Circuit's automatic-injunction rule is indistinguishable from the rules this Court rejected in *Hecht* and its progeny. Even where the public interest is truly overwhelming—as in times of war or where the environment is being irreparably harmed—equitable principles require case-by-case, fact-specific adjudication. As Congress provided in the Patent Act, an injunction is not the only means of remedying the infringement of a patent right because the Act also provides for monetary damages, which can fairly and adequately compensate a non-practicing patent holder in appropriate cases. Congress has even provided for treble damages for the willful infringement of a patent right. 35 U.S.C. § 284.

B. Violations Of Property Rights Are Not Subject To Automatic Injunctions.

The Federal Circuit justified its rigid automatic-injunction rule by claiming that patents are property and that injunctions issue as a matter of course to protect property. Pet. App. 26a. Specifically, the court has contended that "[i]t is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. The right to exclude recognized in a patent is but the essence of the concept of property." *Richardson*, 868 F.2d at 1246-47 (internal quotation marks and citation omitted).

Although patents are indeed a species of personal property, *see* 35 U.S.C. § 261 ("patents shall have the attributes of personal property"), property law affords no support for the Federal Circuit's assertion that entitlement to an injunction is the "essence" of such property. The truth is quite the opposite: "Ordinarily, in cases of chattels, courts of equity will not interfere." 1 STORY, COMMENTARIES ON EQUITY § 708, at 694. Injunctions are issued to protect chattels only in the unusual case where they have some unique quality that makes an award of damages inadequate, such as singular works of art or family heirlooms. *Id.* at § 709, at 694-96. Outside of these rare circumstances, a damages remedy is sufficient and an injunction will not issue.

The Federal Circuit has repeatedly stated that the "exclusive" nature of the patent right compels the use of injunctions. The premise, though, cannot support the conclusion, as there are many "exclusive" rights in law that are not necessarily protected by injunctive relief. Indeed, while patents have always been considered an "exclusive" right, early patents could not be protected by injunctions at all because the original Patent Act of 1790 did not provide for the possibility of injunctive relief. 1 Stat. 109. The only remedies available were actual damages to the patentee and the forfeiture of the

infringer's patented devices. Courts were not afforded the discretion to enjoin the infringer's use of the patent until 1819. 3 Stat. 481, 481-82. And, even today, injunctions are not available in infringement suits against the United States. 28 U.S.C. § 1498. It therefore cannot be said that the right to an injunction is inherent in the nature of patents as "exclusive" rights. The right to a patent injunction derives instead from statute and—as prescribed by that statute—must be exercised in accordance with traditional principles of equity.

Moreover, injunctions are certainly not automatically available to protect the "exclusive" intellectual property rights of copyright and trademark. *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (recognizing that the "goals of the copyright law . . . are not always best served by automatically granting injunctive relief," and noting that injunctive relief is discretionary under the Copyright Act); *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228 (3d Cir. 2003) (affirming the denial of a permanent injunction against a trademark infringer after applying the traditional four-factor test). And although injunctions are less extraordinary in cases involving real property, even there injunctive relief is not simply issued automatically. *See Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 (1933) (denying injunctive relief where a nuisance was injuring land); *Intel Corp. v. Hamidi*, 71 P.3d 296, 303 (Cal. 2003) ("Even in an action for trespass to real property . . . the extraordinary remedy of injunction cannot be invoked without showing the likelihood of irreparable harm.") (internal quotation marks omitted).

Thus, the fact that patents are an exclusive property right does not provide justification for the Federal Circuit's auto-

matic-injunction rule, which has no equivalent in any other area of property law.[4]

C. The Automatic-Injunction Rule Imposes A Disproportionately Harsh Sanction On Inadvertent Infringers.

The traditional function of equity has been to reach a "nice adjustment and reconciliation" between the parties. *Hecht Co.*, 321 U.S. at 329. The court "balances the conveniences of the parties and possible injuries to them according as they may be affected by the granting or withholding of the injunction." *Yakus v. United States*, 321 U.S. 414, 440 (1944); *see also McCrary v. Pa. Canal Co.*, 5 F. 367 (C.C.E.D. Pa. 1880) (denying a patent injunction because the cost to the defendant would far exceed the benefit to the plaintiff). Although this "reconciliation" is often referred to as the "balance of hardships," it also implicates a balance of the parties' rights with their culpability. Indeed, the intent of a wrongdoer and the degree of harm inflicted have always been critical to determining a just and equitable remedy because "[t]he historic injunctive process was designed to deter, not to punish." *Hecht Co.*, 321 U.S. at 329. The automatic-injunction rule entirely disregards this important consideration.

Even the historically less-flexible common law looked to a wrongdoer's intent when determining an appropriate remedy. This was reflected in the distinct forms of action for harms to chattels, which prescribed different remedies based

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[4] The suggestion that application of traditional principles of equity will somehow effect a compulsory licensing regime that deprives patent holders of all meaningful property rights is baseless. In many cases, the balance of equities may well favor the patent holder and call for injunctive relief. In cases where the equities do *not* favor the patent holder, that the patent holder may be limited to a damages remedy can hardly be said to enact a system of compulsory licensing.

on the wrongdoer's intent. In an action for trespass on chattels, the plaintiff was entitled to recover only the profit obtained by the defendant, and the intent of the defendant was irrelevant to the right of recovery. OLIVER WENDELL HOLMES, THE COMMON LAW 96-98 (1881). But if the plaintiff could prove that the wrongdoing was knowing, or motivated by "actual malevolence," an action in trover would lie, and the plaintiff could recover a punitive measure of damages. *Id.* at 143-44. For instance, in *Maye v. Yappen*, 23 Cal. 306 (1863), the defendants dug up gold-bearing earth from land they mistakenly, but reasonably, believed to be their own. The defendants were held liable for their profits in an action for trespass on chattels. *Id.* at 311-12. The court explained that in cases where intentional wrongdoing was not at issue, a wrongdoer was required to repay only his profits, and the defendants were thus permitted to deduct the reasonable costs of extracting the gold. *Id.* But the court further stated that where a wrongdoer took possession of chattels knowing they were not his own, he would be liable in trover, and no subtraction for costs would be permitted. *Id.* at 310-11. This punitive award—often far out of proportion to the damage suffered by the plaintiff—was justified on the ground that intentional wrongs should be discouraged by severe penalties.

In modern patent litigation, this distinction between intentional and inadvertent wrongdoing is more—not less—relevant. As the number of patents continues to multiply, it is becoming increasingly difficult for innovators to keep track of all patents in a particular area and to avoid inadvertent infringement. *See* Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1614 (2003). Not surprisingly, episodes of inadvertent infringement—"tripping over" a patent—are no longer infrequent. As this case well-illustrates, even highly sophisticated, well-financed corporations can find themselves ensnared in the modern "patent thicket." By compelling district courts to impose the extraordinary remedy of injunctive relief whatever the cir-

cumstances surrounding the infringement, the Federal Circuit has disregarded traditional equitable principles, which have always taken the infringers' intentions into consideration as part of the injunctive relief inquiry. The Federal Circuit's one-size-fits-all approach to patent remedies deems irrelevant all such factual specifics, and thereby frequently imposes burdens on inadvertent infringers far out of proportion to the harm done to the patent holder. Such a result cannot be reconciled with the application of traditional principles of equity mandated by Congress.

D. There Is A Strong Public Interest In Seeing Innovations Put To Use.

Because automatic-injunction rules are strongly disfavored in the law, a patent holder's eligibility for an injunction must be determined in accordance with traditional equitable principles. One of the most important aspects of that inquiry is whether the patent holder is serving the public interest by putting its patent to use or merely hoarding the patent in an effort to collect license fees. *See R.R. Comm'n of Tex. v. Pullman Co.*, 312 U.S. 496, 501 (1941) ("The history of equity jurisdiction is the history of regard for public consequences in employing the extraordinary remedy of the injunction.").

Indeed, a "patent by its very nature is affected with public interest," *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (internal quotation marks omitted), and it therefore has long been axiomatic that "courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest." *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942). In *Morton Salt*, for example, this Court ordered the dismissal of a patent infringement action because the patent holder was using its patent to restrain trade in another, unpatented product by requiring licensees of its patented salt tablet dispenser to use only

its unpatented tablets—rather than those of lawful competitors—in the machine. *Id.* at 491. The Court concluded that the patent holder's attempt to suppress lawful competition was "contrary to public policy" and that "the adverse effect upon the public interest of a successful infringement suit . . . disqualifie[d] [the patent holder] to maintain the suit." *Id.* at 494.

If—as *Morton Salt* demonstrates—use of a patent in a manner contrary to the public interest bars the patent holder from litigating an infringement action, it follows *a fortiori* that such misuse also renders injunctive relief unavailable to the patent holder. 314 U.S. at 494; *see also Blonder-Tongue Labs., Inc.*, 402 U.S. at 343 (the "far-reaching social and economic consequences of a patent . . . give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from . . . inequitable conduct") (internal quotation marks omitted).

Historically, courts have considered it to be in the public interest for patents to be put to use. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy"). Indeed, patents are granted to "promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, and thus whether a particular invention is being put to beneficial use is highly relevant to whether the public interest is being served. "[T]he inventor does not fulfil [sic] the spirit of his contract unless he introduces his invention into actual use and puts its benefits within the reach of others." Robinson, *supra*, § 43, at 66.

Thus, although Congress has never made it a defense to patent infringement that the patent was not "worked," the use or non-use of a patent has traditionally been relevant to de-

termining whether a patent holder is entitled to injunctive relief. *See Vaughan v. Cent. Pac. R. Co.*, 28 F. Cas. 1107 (C.C.D. Cal. 1877) (denying injunctive relief in an infringement action because the patent holder did not practice the patent, but only licensed it). Justice Story, for example, wrote that courts of equity should look to whether "the patentee has put the invention into public use" when considering whether to grant a patent injunction. 2 STORY, COMMENTARIES ON EQUITY § 934, at 122.

Respondents have erroneously argued that in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), this Court held that the use or non-use of a patent is irrelevant to the patent holder's eligibility for an injunction. Cert. Opp. 3, 16-18. In that case, this Court was asked to decide whether "unreasonable or sinister" non-use of a patent justified withholding an injunction. *Cont'l Paper Bag Co.*, 210 U.S. at 428-29. This Court rejected the factual premise of the argument, and found it "certainly disputable" that unreasonable non-use had occurred. *Id.* at 429. Although subsequent dicta in the opinion is in tension with the traditional equitable focus on a patent's public use, this Court specifically limited its holding to the facts before it and stated that "[w]hether . . . a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, we do not decide." *Id.* at 430.[5] Subsequent courts have not interpreted *Continental Paper Bag* as barring consideration of a patent's use during the injunctive relief inquiry, *see Foster v.*

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[5] Because *Continental Paper Bag* expressly left open the possibility that denying injunctive relief might be appropriate in some circumstances, this Court need not overrule that decision in order to reject the Federal Circuit's automatic-injunction rule. To the extent that *Continental Paper Bag* is viewed as an impediment to that result, however, this Court should overrule the decision to that limited extent.

Am. Mach. & Foundry Co., 492 F.2d 1317, 1324 (2d Cir. 1974) (denying a permanent injunction after a finding of patent infringement based in part on the fact that the defendant "manufactures a product; the [plaintiff] does not"), and the Federal Circuit should not have done so here.

III. APPLYING TRADITIONAL EQUITABLE PRINCIPLES REMAINS THE BEST WAY TO CURB PATENT ABUSE.

The Federal Circuit's automatic-injunction rule stifles innovation by exacerbating the problem of patent "hold-ups." At its most basic level, a hold-up occurs when a business venture is blocked by a patent holder who claims that the product or service is infringing on its patent. What makes patent hold-ups especially pernicious is that they are often initiated after the infringing company has already invested tremendous resources in a business venture that cannot easily be changed to work around the patent. Once the investment is made, the patentee can hold the resulting line of business—and the associated profits and sunk costs—hostage with an injunction. In extreme cases, a hold-up gives the patent holder the power to shut down an entire business. *See, e.g.*, ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS 113-14 (2004) (injunction granted in Kodak case estimated to have caused 4,500 employees to lose their jobs and $200 million of plant, property, and equipment to be rendered obsolete); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 & n.12 (Fed. Cir. 1986) (permanent injunction issued even though it would likely put the defendant out of business).

Usually, the patent holder's real goal is not to shut down the targeted business but to extract a licensing fee far in excess of the invention's actual value. The Federal Circuit's automatic-injunction rule is therefore crucial to any hold-up scheme because it confronts infringing companies with the Hobson's choice of paying the requested licensing fee, or being put out of business and losing their entire investment.

Under these circumstances, the patent holder can set the licensing fee so high as to extract much of the profit from the infringing business. *But see Hoe v. Boston Daily Advertiser Corp.*, 14 F. 914, 915 (C.C.D. Mass. 1883) (denying a patent injunction because "the only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation . . . for the further conduct of the negotiation").

Moreover, a patent hold-up can generate these exorbitant licensing fees even where the patent is only a tiny part of the overall product. Indeed, as technology has grown more complex, the number of patents implicated by even a relatively simple product has multiplied into the hundreds.[6] The reasonable royalty rate for any single invention in these complex, high-tech devices is only a tiny fraction of the overall value. But a patent hold-up creates so much leverage for the patentee that it can demand—and expect to receive—a licensing fee that is far higher than any conceivable reasonable royalty. By facilitating these unjust and extortionate licensing fees, the automatic-injunction rule violates traditional equitable principles.

This case brings the hold-up problem into particularly sharp relief. The Federal Circuit enjoined eBay and Half.com from continuing much of their successful Internet sales business, but only after eBay and Half.com rejected MercExchange's demand for licensing fees that far outstripped the actual value of its two patents. And as the undersigned

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[6] To build a basic DVD video player, for example, a manufacturer must own or license more than three hundred patents. *See* DVD 6C Licensing Agency, Patent List, *at* http://www.dvd6cla.com/patentlist_01.html (last visited Jan. 20, 2006); MPEG-2, Patent List, *at* http://www.mpegla.com/m2/m2-patentlist.cfm (last visited Jan. 20, 2006); Philips, DVD Patents, *at* http://www.licensing.philips.com/licensees/patent/dvd/ (last visited Jan. 21, 2006).

amicus can attest, this problem is repeating itself throughout the technology-driven sectors of the U.S. economy.

Holding up an established business has become so lucrative that it has given rise to a cottage industry of hold-up entities known as "patent trolls." Patent trolls are patent-holding companies whose sole activities are litigating and licensing their patents. They account for an ever-growing proportion of patent suits. In some cases, investors hire researchers to develop patents that are then exploited through licensing. More often, these non-practicing patent holders acquire patents from failing businesses at below-market values or from individual inventors. Indeed, even some individuals have entered the patent market by trying to stake out exclusive territory on the periphery of an important industry. *See* Nicholas Varchaver, *The Patent King*, FORTUNE, May 14, 2001, at 203. The one constant is that the non-practicing patent holder exploits its patent through litigation, the threat of litigation, and licensing, rather than through technological development.

Non-practicing patent holders have developed a number of hold-up strategies. *See, e.g.*, Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 79-81 (2004). One of the most devious is so-called "submarine patenting." The submarine patent is filed with the United States Patent Office, but deliberately kept from issuing through a series of delaying maneuvers in the patent application process. Once a business emerges that allegedly infringes on the submarine patent, the patent troll completes the application process and then immediately sues for infringement of the freshly issued patent. This strategy allows the non-practicing patent holder to spring the infringement suit at the ideal time—after the target business has already made the start-up investment and established a successful product. This is referred to as submarine patenting because it is so difficult for the infringing business to avoid—the patent is effectively concealed from view until the patent holder is ready to initiate a hold-up.

Non-practicing patent holders have proved to be highly sophisticated, often adapting to and circumventing legislative attempts to curb their litigation-based strategies. For example, Congress recently acted to curtail submarine patenting by mandating that all patent applications be published eighteen months after their submission. 35 U.S.C. § 122(b)(1). But this measure has proved largely ineffective for two reasons. First, in rapidly shifting high-tech industries, eighteen months is often sufficient time to initiate a hold-up. Second, non-practicing patent holders have adapted by using the claims amendment process to broaden their claims after the eighteen-month publication occurs. The patent holder simply files a narrow patent claim, waits out the eighteen months, and then, after publication, broadens its claim via amendment to cover the desired technology. *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY ch. 4, at 27-28 (2003). Thus, despite Congress's efforts, submarine patenting remains alive and well. This legislative failure underscores the importance of safeguarding the courts' traditional equitable powers when adjudicating patent disputes.

Moreover, as a practical matter, patent hold-ups are often possible even without sophisticated strategies like submarine patenting. We are long past the days when it was common for a single patent to cover a single product. With so much complexity, it is virtually impossible for a company to be aware of every conceivable patent that could arguably be infringed by its products. Diligent patent trolls have become adept at searching for and acquiring patents that allegedly touch upon some aspect of a popular product, whether by searching for existing patents or by simply taking out new patents on the periphery of existing technology.

The impact of the hold-up problem extends far beyond the few cases actually litigated to final judgment. Patent litigation is complex and highly uncertain, often involving issues well beyond the understanding of the ordinary juror or even

the average judge. They are unlikely to understand the intricacies of a semiconductor, gene splicing, or a network server based on a few hours of testimony from polarized experts. Studies have confirmed that it is especially difficult to defend against a patent infringement suit, where there is a presumption that the patent is valid. *See* Kimberly A. Moore, *Judges, Juries, and Patent Cases—An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 406 (2000) (study of patent trial decisions between 1983 and 1999 indicating that patentees won 58% of suits overall and 68% of jury trials).

In light of these difficulties, many companies will simply settle rather than face the uncertainties of a bet-the-company trial. Even when a company has a strong invalidity or non-infringement argument, the automatic injunction is so potent a threat that the small possibility of losing at trial is often enough to force a settlement. This, in turn, undermines the patent system generally by preventing challenges to patents of dubious validity.

The bottom line is simple and harsh: Under the Federal Circuit's automatic-injunction rule, any patent holder who can bring a colorable claim of infringement against a successful product has both the means and motivation to engage in "rent-seeking," a practice whereby unproductive and non-contributory claimants use legal or regulatory processes to extract unjust enrichment from productive economic players. The Federal Circuit's presumption of "entitlement" to injunctive relief encourages such practices—which are inimical to the broader interests of society. Money that could go to productive investments is instead diverted to legal fees and settlement payments. The costs of these practices are less innovation or a slower rate of innovation, and higher costs for consumers.

The hold-up problem can be substantially diminished by returning patent law injunctions to their traditional equitable moorings. First, injunctions issued in hold-up situations vio-

late equitable principles because they impose a sanction on infringers that is so harsh as to be punitive and entirely out of proportion to the harm incurred by the patent holder. Second, equity demands that relief be consistent with the public interest, but the public interest is ill-served by the litigation-based strategy of patent trolls, who do little to implement or develop their innovations. When a patent is used only as "a club to be wielded by a patentee to enhance his negotiating stance," *Foster*, 492 F.2d at 1324, courts should exercise the equitable discretion that is mandated by both statute and centuries of tradition to deny an injunction, and should instead implement a remedy such as a reasonable royalty that is more consistent with the public interest.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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Supreme Court of the United States

EBAY AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF OF AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION AND FEDERAL CIRCUIT BAR ASSOCIATION AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

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AMICI CURIAE BRIEF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION AND FEDERAL CIRCUIT BAR ASSOCIATION IN SUPPORT OF NEITHER PARTY

This brief is submitted jointly by the American Intellectual Property Law Association ("AIPLA") and Federal Circuit Bar Association ("FCBA") as *amici curiae* in support of neither party to urge the Court to leave unchanged the current standards for issuing permanent injunctions in patent cases, thereby allowing district courts to continue to weigh and balance the equitable factors "in accordance with the principles of equity."

STATEMENT OF INTEREST[1]

AIPLA and FCBA (collectively "*Amici*") have no interest in any party to this litigation or stake in the outcome of this case, other than their interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

AIPLA is a voluntary bar association of over 17,000 members who daily work with patents, trademarks, copyrights, trade secrets, and the legal issues that intellectual property presents. The FCBA is a national bar association with over 2,600 members, all of whom practice before, or have an interest in, the decisions of the Court of Appeals for the Federal Circuit in all areas of that court's jurisdiction.

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[1] In accordance with Supreme Court Rule 37.6, *Amici* state that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than *Amici* or their counsel.

Amici's members include attorneys in private and corporate practice and in government service who secure, license, enforce, and defend against enforcement of intellectual property rights. They regularly counsel and advise their clients regarding seeking or opposing permanent injunctions in patent cases. Accordingly, this Court's decision to consider the standards for issuing permanent injunctions in patent cases may materially impact *Amici's* members.

Through their diverse representation, *Amici* bring a broad perspective and extensive experience to the important issues raised in this case. *Amici* are able to offer the Court a unique and balanced perspective because their members represent parties on both sides of the issues raised in this case: (1) patent owners who may have to judicially enforce their patents and seek a permanent injunction; and (2) competitors or accused infringers who may be subject to a request for a permanent injunction should liability become established. Both sides have to consider the possibility of entry of a permanent injunction in deciding whether to settle threatened or actual litigation.

Amici have sought consent to file this brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.3(a). Counsel for all parties consented. Copies of the letters of general consent have been filed with the Clerk.

SUMMARY OF ARGUMENT

This Court has elected to consider: 1) whether the Federal Circuit correctly articulated the "general rule" that a permanent injunction will normally issue in patent cases after a finding of liability absent exceptional circumstances; and 2) its prior precedents including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), regarding when it is appropriate to grant an injunction against a patent infringer.

The Federal Circuit's "general rule" that a permanent injunction will normally issue in a patent case once liability has been established is fully consistent with 35 U.S.C. § 283 and is well-grounded in the traditional factors governing the issuance of injunctions. The Federal Circuit's statement of the "general rule" appropriately recognizes that three of the traditional injunction factors (irreparable harm, inadequate remedy at law and the public interest), will normally favor the patentee as a result of the inherently limited nature of the patent's exclusive right and the strong public policy favoring enforcement of valid patents.

Although the Federal Circuit did not expressly discuss each of the traditional injunction factors in its opinion in this case, the Federal Circuit historically has applied those factors in a way that properly balances the rights of the patentee and the public's interest in a robust patent system against the needs of the defendant and the public. Despite repeated claims that the Federal Circuit has divested district courts of the discretion to enter an injunction, Petitioners and their *amici* have not identified, nor can they identify, a single Federal Circuit holding requiring district courts to adopt an "automatic" or "*per se*" injunction rule in patent cases. In the present case, the Federal Circuit merely explained that

the facts on which the district court relied to deny an injunction were insufficient to support the district court's decision. Accordingly, no change to the traditional injunction factors or to the Federal Circuit's "general rule" is warranted.

The Federal Circuit's "general rule" is no different than that employed in trademark, copyright, and real property cases. Moreover, the Federal Circuit did not create the "general rule." That rule has been recognized in patent cases for well over 150 years.

This Court's prior decisions in *Continental Paper Bag* and its progeny correctly hold that permanent injunctions are available to patentees who do not use the patent by manufacturing a product or employing a process covered by the patent. The Court should reject any suggestion that the mere failure or inability of a patentee to use the patent in this way, standing alone, should preclude the availability of injunctive relief. Rather than attempt to fashion a bright-line rule with respect to non-using patentees, courts should consider whether the patentee makes the patented product or employs the patented process as one factor that may be relevant to the traditional equitable factors governing entry of an injunction. A dramatic change in this Court's precedent with respect to the availability of injunctive relief in patent cases would upset the well-established balance between the rights of the patentee and the public that has been critical to fostering the incentives to innovate that the patent system has successfully promoted since its inception.

ARGUMENT

I. The Federal Circuit Consistently Has Recognized District Courts' Discretion In Deciding Whether To Grant Or Deny Permanent Injunctions

The United States Constitution authorizes Congress "To promote the Progress of ... useful Arts, by securing for limited Times to ... Inventors the exclusive Right to their ... Discoveries." U.S. CONST. art. I, § 8, cl. 8. Thus, the Founding Fathers authorized Congress to grant inventors an "exclusive right" to their inventions, not merely the right to collect damages. Congress responded by authorizing district courts to "grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283.

Petitioners' primary argument is that the Federal Circuit systematically has discarded Section 283 in its injunction analysis, adopting instead a *per se* rule that fails to acknowledge the district court's discretion in implementing that statute. Petition at 2. The Federal Circuit's statement that patentees are normally entitled to a permanent injunction once infringement and validity have been established is fully consistent with Section 283 of the Patent Act.

Contrary to Petitioners' suggestion, the Federal Circuit often has recognized that Section 283 entrusts district courts with the equitable discretion to grant or deny permanent injunctions in patent cases:

> Section 283 of Title 35 authorizes district courts, upon a finding of infringement, to impose a

> permanent injunction 'in accordance with the principles of equity.' Thus, while we have stated the general rule that an injunction should follow an infringement verdict, we also recognize that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction.

Odetics, Inc. v. Storage Tech. Corp., 185 F.3d 1259, 1272 (Fed. Cir. 1999) (internal citations omitted).[2]

When evaluating whether a district court properly exercised its discretion in granting or denying an injunction, this Court has traditionally looked to four equitable factors: 1) whether the plaintiff would face irreparable injury if the injunction did not issue, 2) whether the plaintiff has an adequate remedy at law, 3) whether granting the injunction is in the public interest, and 4) whether the balance of hardships tips in the plaintiff's favor. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982). Collectively, these

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[2] *See also Carborundum Co. v. Molten Metal Equip. Innovations*, 72 F.3d 872, 881 (Fed. Cir. 1995) ("[C]ourts have broad discretion in determining appropriate relief for patent infringement."); *Kearns v. Chrysler Corp.*, 32 F.3d 1541, 1551 (Fed. Cir. 1994) ("[E]ntitlement to an injunction implementing the right to exclude, as compared with only assessing damages against an infringer, is not absolute even during the life of a patent, but is discretionary."); *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992) ("[Section 283] grants the district courts broad discretion in determining whether the facts of a case warrant an injunction and in determining the scope of the injunctive relief."); *Roche Prods. v. Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984) ("Whether an injunction should issue in this case, and of what form it should take, certainly depends on the equities of the case."); *W.L. Gore & Assoc., Inc. v. Garlock*, Inc., 842 F.2d 1275, 1281 (Fed. Cir. 1988) (recognizing a district court's discretion in entering a permanent injunction).

factors provide a way to balance the rights of the patentee against the potential harm to the defendant, while considering the public's interest in a robust patent system. The Federal Circuit's articulation of the "general rule" that an injunction normally follows a finding of patent infringement does not require district courts to depart from this traditional four-factor equitable analysis.

II. Upon a Determination of Liability, A Patentee Is Normally Entitled To A Permanent Injunction Under The Traditional Equitable Factors

The Federal Circuit's "general rule" that normally requires a permanent injunction upon a determination of liability simply reflects that continued infringement of a valid patent causes the patentee irreparable harm that is not compensable by money damages, and violates the public policy favoring enforcement of valid patents. Whether stated as a presumption or a general rule, the Federal Circuit's recognition does not abandon the traditional equitable injunction analysis, but merely recognizes that the analysis begins weighted in favor of the patentee and against an adjudicated infringer.[3] Indeed, Petitioner does not appear to dispute that an injunction is usually the proper remedy for patent infringement. *See* Petition at 26. In light of the effect of the nature of the patent grant on the traditional equitable

[3] Simply because the Federal Circuit's opinion in this case did not proceed in formal four-factor fashion does not mean that the court has abandoned the traditional equitable analysis. Where, as here, the parties limit their arguments to fewer than all of the factors, the court need address only those arguments presented.

factors, courts historically have rarely exercised their discretion to deny patentees the primary benefit of their temporary right to exclude.[4]

A. The Federal Circuit's "general rule" correctly recognizes that the harm caused by continued infringement of a valid patent is inherently irreparable due to the limited nature of the patent right

The Federal Circuit's "general rule" recognizes that infringement necessarily results in irreparable harm because of the temporally limited nature of the patent grant. Infringement deprives the patentee of the basic exclusive right conferred by the patent for a period that never can be restored.

A patent grant confers upon its owner "the right to *exclude* others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States ..." for a limited term. 35 U.S.C. § 154(a)(1)-(2) (emphasis added).

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[4] Petitioners and their *amici* supporters claim they have been unable to find a case since the Federal Circuit's decision in *Roche Products v. Bolar Pharmaceutical. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), in which that court has affirmed the denial of a permanent injunction (although such examples in the context of preliminary injunctions abound). *See, e.g.*, Petition at 17-18. Petitioners and *amici* fail to acknowledge that historically the occurrence of facts sufficient to warrant the denial of a permanent injunction is rare in *any* court, including this one. In the nearly two hundred years of patent law that preceded the creation of the Federal Circuit, only a handful of courts have denied injunctions following a finding of infringement of a valid patent. Thus, a historical analysis of patent cases refutes any suggestion that the Federal Circuit's decision in the present case is part of some alarming recent trend.

Thus, "the franchise secured by a patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee." *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 463 (1922); *see Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention."); *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983) ("right to exclude recognized in a patent is but the essence of the concept of property").

Because "[t]he very nature of the patent right is the right to exclude others," the Federal Circuit has explained, "[o]nce the patentee's patents have been held to be valid and infringed, he should be entitled to the full enjoyment and protection of his patent rights." *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983). Continued infringement of a patent determined to be valid and infringed completely deprives the patentee of the right under the patent to exclude others. "It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation." *Continental Paper Bag*, 210 U.S. at 430.

Moreover, a patent has a limited term, in most cases 20 years from the date the application is filed. 35 U.S.C. § 154(a)(2). That period is not tolled during an infringement. Continued infringement would deprive the patentee of the exclusive right conferred by the patent for a period of time that cannot be recovered. Thus, by its very nature, the patentee's loss of its finite exclusivity period is irreparable. *See H.H. Robertson Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987), *overruled in part on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (*en banc*) (recognizing that a

patentee is irreparably harmed by an infringement due to the limited duration of the patent grant).

Indeed, irreparable harm is presumed in preliminary injunction proceedings upon a clear showing of validity and infringement precisely because continued invasion of the exclusive right conferred by a valid patent irreparably harms the patentee. *Id.; Smith*, 718 F.2d at 1581; *Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 975 (Fed. Cir. 1996). In the context of a permanent injunction, the final determination of validity and infringement *conclusively* establishes that continuing infringement—the continued deprivation of the patentee's temporary right to exclude—will irreparably harm the patentee. Thus, upon a final judgment of infringement, the equitable injunction analysis begins with the first equitable factor, the patentee's irreparable harm, having been established.

B. The Federal Circuit's "general rule" correctly recognizes that patentees lack an adequate remedy at law for continued infringement of a valid patent

The Federal Circuit's decision correctly rejected the district court's finding that the patentee's willingness to license its patents to the defendants and to others established that the patentee has an adequate remedy at law. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). This is consistent with a long line of Federal Circuit cases recognizing that the nature of the patent grant weighs against holding that monetary damages are an adequate remedy for infringement. *See Hybritech, Inc. v. Abbott Labs.*, 849 F.2d 1446, 1456-57 (Fed. Cir. 1988); *H.H. Robertson*, 820 F.2d at 390; *Atlas Powder Co. v. Ireco Chems.*, 773 F.2d 1230, 1233 (Fed. Cir. 1985).

The adequacy of the legal remedy is subject to dispute in preliminary injunction proceedings, where validity and infringement have yet to be established. *See High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995). A final determination of validity and infringement establishes the inadequacy of the legal remedy, just as it establishes irreparable harm. Continued infringement of a valid exclusive right cannot be compensated entirely by monetary damages. "Although [monetary] damages might be 'adequate' in the sense that they could replicate what might be a reasonable royalty for such continued infringement, damages, however measured, are nonetheless inadequate because limiting [the patentee] to damages does not allow it to exercise the monopoly power granted to it by the statute; an injunction is the only remedy that can achieve that goal." *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 795 (E.D. Va. 1998), *aff'd*, 185 F.3d 1259 (Fed. Cir. 1999).

This same reasoning is applied in copyright and trademark cases as well. *See Taylor Corp. v. Four Seasons Greetings, LLC*, 403 F.3d 958, 967-68 (8th Cir. 2005) (in copyright cases, liability establishes inadequate remedy at law and irreparable harm because denial of permanent injunctive relief would amount to "forced license"); *E. & J. Gallo Winery v. Spider Webs Ltd.*, 286 F.3d 270, 280 (5th Cir. 2002) (remedy at law would not protect trademark owner's reputation if infringer could continue to use mark); *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988) ("[T]here is no adequate remedy at law for the injury caused by a defendant's continuing [trademark] infringement."). Continued infringement of the exclusive right, once that right has been determined valid, is not entirely compensable in money damages, even where, as here, the patentee has offered to license the patent to others.

Thus, upon a final judgment of infringement of a valid patent, the analysis begins with the second equitable factor, the inadequacy of the legal remedy, having been established.

C. The Federal Circuit's "general rule" properly recognizes the public's strong interest in the enforcement of valid patents

The public policy analysis begins with a presumption favoring the patentee on the third equitable factor. "[P]ublic policy favors protection of the rights secured by . . . valid patents." *Smith*, 718 F.2d at 1581. As this Court has explained, "the patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (*quoting Bonito Boats Inc. v. Thunder Craft Boats Inc.*, 489 U.S. 141, 150-51 (1989)). The Federal Circuit grounded its recognition of that public policy in the Constitutional bargain between the inventor and the public, which the patent laws provide:

> Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Smith, 718 F.2d at 1578. As the district court recognized below, "[t]he public-interest factor often favors the patentee, given the public's interest in maintaining the integrity of the patent system." *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 713 (E.D. Va. 2003), *rev'd* 401 F.3d

1323 (Fed. Cir. 2005) (quoting *Odetics,* 14 F. Supp. 2d at 795).

Thus, the public interest factor is initially weighted in favor of securing to the patentee the benefits of his bargain with the public and in favor of enforcing his right to exclude. *Cf. Hybritech,* 849 F.2d at 1458 (considering the public interest in favor of enforcing valid patents in the preliminary injunction context). That the public interest favors enforcement of valid patents, however, does not mean that patent infringement injunctions are "automatic." *Cf. id.* (affirming injunction against some, but not all, of accused products because, "with respect to these products, the district court concluded that the public interest was in favor of granting the preliminary injunction."). As the Federal Circuit often has explained, including in this very case, the substantial public interest in maintaining future incentives for inventors to develop and disclose their technology can be outweighed when the "patentee's failure to practice the patented invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *MercExchange*, 401 F.3d at 1338 (*quoting Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (*en banc*)); *see also Vitamin Technologists, Inc. v. Wisc. Alumni Res. Found.*, 146 F.2d 941, 956 (9th Cir. 1945); *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934).

In the present case, the only public interest the district court identified as supporting the denial of an injunction was "a growing concern over the issuance of business-method patents, which forced the PTO to implement a second level review policy and cause legislation to be introduced in Congress to eliminate the presumption of validity for such patents." *MercExchange*, 401 F.3d at 1339. As the Federal

Circuit correctly held, a nebulous general concern regarding the propriety of certain kinds of patents is not the type of important public need that should trump the public's interest in the enforcement of valid patents. Indeed, the district court appears to have recognized that any "concern" regarding the issuance of business method patents is an issue for Congress.[5] In rejecting the sole basis for the district court's public interest finding, the Federal Circuit both considered the public interest factor and confined its analysis to the only relevant point presented, the public interest in enforcing valid patents.

D. The Federal Circuit's "general rule" may, in limited circumstances, be overcome by hardship to the infringer greatly disproportionate to that of the patentee

Even though continued infringement of a valid patent irreparably harms the patentee in a way that is not entirely compensable by money damages, and is contrary to the public interest in enforcing valid patents, the grant of an injunction is not "automatic." The final component of the equitable analysis examines the balance of the hardships.

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[5] The district court's reliance on a bill "to eliminate the presumption of validity for [business method] patents," 275 F. Supp. 2d at 713-14, was misplaced. House bill, H.R. 1332, 107th Cong., 1st Sess. § 4 (Apr. 3, 2001), which would have eliminated the presumption of validity for only a limited category of business-method patents, was never enacted, and the concern about business method patents in general was overblown at the time. *See generally* Statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association Before the Subcommittee on Courts, The Internet and Intellectual Property, Committee on the Judiciary, United States House of Representatives, Oversight Hearing on Business Method Patents, 2001 WL 333935 (F.D.C.H.) (April 4, 2001).

This balance weighs the hardship the patentee would suffer without the injunction against the harm the injunction would impose on the infringer. *Cf. Weinberger*, 456 U.S. at 312 ("Where plaintiff and defendant present competing claims of injury, the traditional function of equity has been to arrive at a 'nice adjustment and reconciliation' between the competing claims.") (*quoting Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944)). As this Court has explained in the nuisance context, "Where substantial redress can be afforded by the payment of money and issuance of an injunction would subject the defendant to grossly disproportionate hardship, equitable relief may be denied although the nuisance is indisputable." *City of Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 (1933).

Real property cases have long considered the balance of the hardships to the property owner and the party accused of trespass, encroachment or nuisance. *See generally id.* at 338 n.1 (collecting cases denying injunctions "because the injury was small and an injunction would have imposed too great a burden on the defendant"); Barton H. Thompson, Jr., *Injunction Negotiations: An Economic, Moral, and Legal Analysis*, 27 STAN. L. REV. 1563, 1564 n.8, 1577-80 (1975); W. Page Keeton & Clarence Morris, *Notes on "Balancing The Equities,"* 18 TEX. L. REV. 412 (1940); Henry L. McClintock, *Discretion to Deny Injunction Against Trespass and Nuisance*, 12 MINN. L. REV. 565 (1928). Under the "relative hardship doctrine" applied in real property cases, courts weigh the relative hardships (the burdens to the enjoined party and third parties, typically the public, from the injunction and the burden on the property owner if the

injunction is not granted) and will not issue the injunction if its burdens greatly exceed the benefits.[6]

The balancing of hardships in property cases is instructive for patent law. "Courts have continually recognized patent rights as property ...." *Fl. Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 637 (1999); *see also* Frank H. Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J. L. & PUB. POL'Y 108 (1990).

This same balancing approach should be available in patent cases in which relevant evidence is introduced.[7] *See*

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[6] *See* Thompson, 27 STAN L. REV. at 1577 n.9; *see also* Restatement (First) of Property Section 563 (1944); *Hentz v. City of Spearfish*, 648 N.W.2d 338 (S.D. 2002) (injunction denied where home addition built under good faith belief of compliance with building permit, which turned out to be erroneously issued, and injunction would require tearing down structure and demolishing foundation); *Stuttgart Elec. Co. v. Riceland Seed Co.*, 802 S.W. 2d 484 (Ark. App. 1991) (injunction denied where structure's encroachment was unintentional and slight and cost of removal greatly outweighed harm to property owner); *Golden Press v. Rylands*, 235 P.2d 592, 596 (Colo. 1951) (same); *Mayer's Appeal*, 73 Pa. 164 (1873) (same).

[7] In real property cases, some courts refuse to consider the defendant's harm unless his actions were innocent. Thompson, 27 STAN. L. REV. at 1577 n.9; *see also Burke v. Voicestream Wireless Corp. II*, 207 Ariz. 393, 87 P.3d 81 (Ariz. App. 2004) (injunction required removal of cell phone tower built with knowledge of restrictive covenant violation and neighbors' objection); *Renaissance Dev. Corp. v. Universal Props. Gp., Inc.*, 821 A.2d 233 (R.I. 2003) (injunction required removal of encroaching retaining wall built with knowledge of plaintiff's objections). Application of this "innocence" requirement for the balance of the hardships has not yet been explored in a patent case. Here, eBay was found to be a willful infringer and apparently did not appeal from the willfulness finding. *MercExchange*, 401 F.3d at 1326. But willfulness in patent cases does not necessarily equate to lack of "innocence" in real

Carborundum, 72 F.3d at 882 n.9 (The balance of the hardships to the patentee and the infringer "were clearly factors the court must have considered when determining whether to grant an injunction in accordance with the principles of equity."); *see also* Michael A. Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 DUKE L. J. 1, 73-74 (2004) (urging application of equitable limitations on real property enforcement to intellectual property). And indeed it has been applied in patent cases. *See Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2nd Cir. 1974) (affirming denial of injunction where "[I]n the assessment of [the] relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable"); *Ramp Res. & Dev., Inc. v. Structural Panels, Inc.*, 977 F. Supp. 1169, 1178 (S.D. Fla. 1997), *aff'd in part, rev'd in part, vacated in part*, 230 F.3d 1381 (Fed. Cir. 2000) (citing *Foster* and granting injunction against one infringer while denying injunction against another infringer that had taken an exclusive license from the patentee).

As a practical matter, the balance of hardships is rarely at issue in patent cases. Even when it is, that balance rarely favors the infringer. Generally, infringers either fail to present any evidence of hardship, present evidence that is speculative, or allege a hardship that does not greatly outweigh the hardship to the patentee. *See, e.g., Johns*

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property cases. In patent cases, infringement can be found willful even where it is initially undertaken in complete innocence. *See, e.g., Am. Med. Sys., Inc. v. Med. Eng'g Corp.*, 6 F.3d 1523, 1530-33 (Fed. Cir. 1993).

Hopkins Univ. v. CellPro, Civil Action No. 94-105-RRM, 1997 U.S. Dist. LEXIS 24162, *9 (D. Del. July 24, 1997), *aff'd in part, vacated in part*, 152 F.3d 1342 (Fed. Cir. 1998) (entering injunction after weighing relative hardships because infringer's evidence of hardship was "highly speculative"). Some plaintiffs even present evidence contradicted by their own public statements. *See Odetics*, 14 F. Supp. 2d at 797 & n.30 (rejecting assertion of hardship in view of infringer's press release issued the day the jury returned its verdict stating that it had designed a noninfringing alternative).

Indeed, the trial court below noted that Petitioners claimed "they can design around the patents with relative ease." *MercExchange,* 275 F. Supp.2d at 714. The trial court relied on MercExchange's dispute of that claim as evidence that the parties would dispute the scope and applicability of any injunction, and that because the parties would likely have ongoing disputes regarding infringement, the balance of the hardships tipped "slightly" in defendants' favor. *Id.* While the Petitioner argues that there would be a hardship in the judicial administration of any injunction, the Federal Circuit correctly recognized that the burden of judicial administration—at least standing alone—is insufficient because it does not pose hardship to the defendant. *MercExchange*, 401 F.3d at 1339. That the Federal Circuit did not address any additional alleged hardships to the defendant appears to have resulted from the parties' failure to offer evidence, not a categorical refusal to consider hardship to the infringer.[8]

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[8] Other *amici* have cited to the Federal Circuit's dicta in *Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986) ("One who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against

Instead of hardships they would suffer from the injunction, Petitioners focus on an analogy to courts in real property cases that have refused to enjoin single instances of trespass. Petition at 23. Like most patent infringement cases, however, this case does not involve a single instance of infringement that is unlikely to be repeated. Absent an injunction, Petitioners would continue to infringe the patent that the trial court and Federal Circuit have held not invalid. In any event, the single instance of trespass analogy is inapt; the Federal Circuit said that an injunction should be refused where all infringement has ceased and is highly unlikely to be repeated. *See W.L. Gore*, 842 F.2d at 1281.

III. The Federal Circuit Did Not Create The "General Rule"

A. The Federal Circuit's "general rule" has been a part of the patent system for more than a century and a half

The Federal Circuit's "general rule" that an injunction will normally issue upon a finding of infringement of a valid patent is not new. Courts and commentators alike have embraced this rule for more than a century and a half. *See* Walter H. Free, *Infringement Suits, in* Robert Calvert, THE

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continuing infringement destroys the business so elected."), to argue that the Federal Circuit refuses to consider the hardship an injunction would pose to the defendant. The Federal Circuit has since emphasized that its holding in *Windsurfing* was quite narrow: "that the district court abused its discretion in refusing to enjoin one infringer, despite having granted injunctions as to all other infringers, giving as its sole reason the small size of the former's business." *Std. Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 515 (Fed. Cir. 1990).

ENCYCLOPEDIA OF PATENT PRACTICE & INVENTION MANAGEMENT 451, 458 (1964) ("Generally, a plaintiff whose patent has been adjudicated as valid and infringed is entitled to a permanent injunction against further infringement."); William E. Simonds, A SUMMARY OF THE LAW OF PATENTS FOR USEFUL INVENTIONS 250 (1883) ("When in the course of an equity suit, the court, on final hearing upon pleadings and proofs, finds that the patent is valid, and that it has been infringed, the court grants, as a matter of course, a perpetual injunction against the infringer."); John P. Norman, A TREATISE ON THE LAW AND PRACTICE RELATING TO LETTERS PATENT FOR INVENTION 145 (1853) ("It is almost a matter of course to grant or revive an injunction when the plaintiff has established his title at law."); George T. Curtis, A TREATISE ON THE LAW OF PATENTS FOR USEFUL INVENTIONS 388 (1849) ("After a trial and judgment at law, in favor of the plaintiff, the injunction will be revived or granted as a matter of course."); Willard Phillips, THE LAW OF PATENTS FOR INVENTIONS 468 (1837) ("If on a trial at law the plaintiff establishes his right, the injunction on the defendant is, on his motion, made perpetual."). For more than 150 years, when choosing to disclose their inventions to the public in exchange for a patent, inventors have relied upon the general expectation that, with limited equitable exceptions, they will be able to obtain injunctions against infringement of their patents.

B. The Federal Circuit's "general rule" is consistent with the analysis applied in other areas of property law

Not only is the Federal Circuit's "general rule" within the mainstream of the law of injunctions, it comports with the principles governing injunctions in other areas of intellectual

property law. In trademark law, infringements are considered by their very nature irreparable. *See Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996) ("A permanent injunction issues to a party after winning on the merits and is ordinarily granted upon a finding of trademark infringement."); 5 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:2 at 30-8 (4th ed. 2005) (collecting cases). The same holds true for copyright law. See 4 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 14.06[B] (2005). Accordingly, the "general rule" is widely accepted and ought not to be cast aside.

IV. This Court Should Not Overrule Its Limited Holding In *Continental Paper Bag*

A. This Court's analysis in *Continental Paper Bag* remains sound public policy

In addition to considering the Federal Circuit's "general rule" regarding injunctions in patent cases, this Court also asked the parties to brief whether the Court should reconsider its prior precedent, including its decision in *Continental Paper Bag*. That decision addressed whether an injunction would be available to a patentee who did not use his patent by making a product or employing a process covered by the patent. 210 U.S. at 422. This Court initially noted that the patentee did not manufacture the patented product because it was using a competing technology, and it would have been costly to change to the patented design, a justification the Court refused to find *per se* unreasonable. *Id.* at 429.

This Court observed that Congress was well aware that some patentees do not use their patents by making patented products or using patented processes, and that in some foreign countries nonuse could negatively affect a patentee's rights. *Id.* "This policy, we must assume, Congress has not been ignorant of nor of its effects. It has, nevertheless, selected another policy; it has continued that policy through many years. We may assume that experience has demonstrated its wisdom and beneficial effect upon the arts and sciences." *Id.* at 429-30.

Although the Court recognized that a patentee's right to exclude would be rendered useless if it could not be enforced, it declined to decide when a court should equitably refuse an injunction. "Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction we do not decide." *Id.* at 430.

This Court's reasoning in *Continental Paper Bag* is at least as applicable today as it was in 1908. On numerous occasions since this Court's decision in *Continental Paper Bag*, Congress has considered adopting provisions that would cause patentees who do not use their patents to lose the ability to enjoin infringers. *See Hartford-Empire Co v. United States*, 323 U.S. 386, 433 (1945) ("Congress has repeatedly been asked, and has refused, to change the statutory policy by imposing a forfeiture or by a provision for compulsory licensing if the patent is not used within a specified time."). Notwithstanding repeated efforts to convince Congress to restrict the ability of non-using patentees to obtain injunctions, Congress has not done so. *See, e.g., Oversight Hearing on the Committee Print Regarding Patent Quality Improvement*, House Jud. Comm.

(June 9, 2005) (directed in part to an injunction provision in House Committee Print, http://judiciary.house.gov/media/pdfs/comprint042005.pdf § 7 (April 14, 2005), that was dropped before introduction of H.R. 2795, the "Patent Act of 2005," 109th Cong. (2005)).

A rule diminishing the ability of a non-manufacturing entity to obtain an injunction would also undermine the policy established by Congress in the Bayh-Dole Act (P.L. 96-517, the Patent and Trademark Law Amendments Act) in 1980 and in subsequent amendments to that Act in 1984 (P.L. 98-620). Before that legislation, the Federal Government's reluctance to allow universities to obtain title to government-sponsored inventions meant that universities could not use the exclusivity of patents to foster the commercialization of such inventions. Thus, although taxpayers were supporting federal research, they were not benefiting from useful products or the economic development that would have occurred with the manufacture and sale of resulting products. Congress' enactment of the Bayh-Dole Act reflected its judgment that the public would benefit from permitting universities to own inventions made under federal funding and to become directly involved in the commercialization process. Congress "understood that stimulation of the U.S. economy would occur through the licensing of new inventions from universities to businesses that would, in turn, manufacture the resulting products in the U.S." *See, e.g.*, COUNCIL ON GOVERNMENT RELATIONS, THE BAYH-DOLE ACT: A GUIDE TO THE LAW AND IMPLEMENTING REGULATIONS 2 (1999). Congress understood that universities do not engage in manufacturing and that the only way universities could achieve the congressional goal of transferring federally funded research to the marketplace was through licensing the resulting patents. Like universities, independent inventors, start-up companies, research

institutes and others may have sound reasons for not using their patents by manufacturing a product or employing a process covered by the patent. To limit the ability of these non-manufacturing entities to obtain injunctive relief would undermine the very purpose for which Congress enacted the Bayh-Dole Act.

This Court should respect Congress's repeated rejection of proposals to distinguish patentees who manufacture their patented products or use their patented methods from those who do not. Such a distinction would unfairly deprive most independent inventors, start-up companies, research institutions and universities of their principal remedy for patent infringement.

B. Courts should consider whether a patentee uses the patented technology in connection with other equitable factors

The repeated failure of Congress to establish a statutory distinction between patentees who use their patent rights and patentees who do not use their patent rights does not mean that a patentee's failure to use the patented technology is completely irrelevant to whether a permanent injunction should issue. To the contrary, courts can, and do, consider a patentee's failure to use the patent and reasons for that non-use in connection with the traditional equitable factors. For example, although a patentee necessarily suffers at least some irreparable harm as a result of continued infringement of its valid patent, the fact that it has made no use of the patented invention and reasons for such non-use may be relevant to the balance of hardships, particularly the hardship to the patentee that would be imposed by the denial of an injunction. *See, e.g., Foster*, 492 F.2d at 1324.

Similarly, the Federal Circuit has held that whether a patentee uses the patented invention could be relevant to a court's evaluation of the public's interest in an injunction. As the Federal Circuit explained in its decision below, "we have stated that a court may decline to enter an injunction when 'a patentee's failure to practice the patented invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health."[9] *MercExchange*, 401 F.3d at 1338 (*quoting Rite-Hite*, 56 F.3d at 1547). Thus, while not precluding an injunction standing by itself, a patentee's failure to practice the invention is relevant to the court's exercise of discretion to grant an injunction "in accordance with the principles of equity."

CONCLUSION

The Federal Circuit's "general rule" that an injunction will normally issue once liability for patent infringement has been established recognizes the inherently irreparable nature of the harm resulting from continued infringement of a valid patent, the inadequate remedy at law for that continued

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[9] Based on the language quoted above, Petitioners and other *amici* have suggested that the Federal Circuit implicitly held that injunctions may be refused *only* in the case of a national health emergency. *See, e.g.*, Petition at 12. That is incorrect. The Federal Circuit has referred to the need to use an invention to protect public health merely because such situations present the most compelling public-interest basis for denying an injunction. The Federal Circuit has never limited the public interest factor to health emergencies. As the Federal Circuit's *en banc* decision in *Rite-Hite* suggests, the public interest is implicated by "an important public need for the invention" uncoupled to any health emergency. *Rite-Hite*, 56 F.3d at 1547. Although the public interest historically has arisen in the context of public health issues, nothing in the Federal Circuit's jurisprudence suggests the narrow limitation that the Petitioners argue.

infringement, and the strong public interest in the enforcement of valid patents.

Moreover, this Court's limited holding in *Continental Paper Bag* that an injunction may be available regardless of whether the patentee practices the patented invention remains good law and reflects sound public policy. That holding does not preclude consideration of whether the patentee practices the patented invention, which remains a factor in deciding whether to grant or deny an injunction "in accordance with the principles of equity."

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In The
Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF THE ASSOCIATION OF AMERICAN UNIVERSITIES AND THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES AS AMICI CURIAE IN SUPPORT OF RESPONDENT

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STATEMENT OF INTEREST OF AMICI CURIAE[1]

The Association of American Universities ("AAU") was founded in 1900 by a group of fourteen universities offering the Ph.D. degree. The AAU currently consists of sixty-two leading research universities in the United States and Canada. The association assists members in developing national policy positions on issues that relate to academic research, graduate and professional education, as well as issues relating to the transfer of innovative technology from university to industry.

The National Association of State Universities and Land-Grant Colleges ("NASULGC") was founded in 1887 and is the nation's oldest higher education association. Its members include public universities, public-university systems, and land-grant institutions from all 50 states, the U.S. territories and the District of Columbia.

Among the top 100 recipients of federal funds for research and development, eighty-three are AAU/NASULGC affiliated institutions. These eighty-three institutions conducted approximately seventy-five percent of all federally funded academic research and development in 2002, the last year for which published data are available.

Amici and their members have provided testimony in numerous congressional hearings relating to intellectual property and technology transfer issues affecting research universities. *Amici* have an interest in the proper application of the Bayh-Dole Act (P.L. 96-517, Patent and Trademark

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[1] The parties have consented to the submission of briefs of *amici curiae* in letters filed separately with the Clerk of the Court on December 15th and 21st, 2005, by counsel for Petitioner and Respondent, respectively. Pursuant to Rule 37.6, counsel for *amici curiae* certify that no counsel for a party authored this brief in whole or in part, and no person or entity other than *amici curiae*, or their counsel, has made a monetary contribution to this brief's preparation or submission.

Law Amendments Act of 1980), the unique statutory scheme that allows research universities and other nonprofit organizations and small businesses to retain patent rights to inventions derived from federally funded research projects. The Bayh-Dole Act is aptly praised as "[p]ossibly the most inspired piece of legislation to be enacted in America over the past half-century" because it has "unlocked all the inventions and discoveries that had been made in laboratories throughout the United States with the help of taxpayers' money" and "[m]ore than anything, . . . [has] helped to reverse America's precipitous slide into industrial irrelevance." *Innovation's Golden Goose*, The Economist, Dec. 14, 2002, at 3.

University technology transfer efforts promoted by the Bayh-Dole Act would function less effectively without the availability of injunctive relief in cases of patent infringement. In addressing the appropriate standards for the issuance of injunctions in patent cases, the Court should take care not to upset the delicate, well considered, and well functioning legislative scheme that facilitates the transfer of significant scientific advancements from university laboratories to the public at large.

Another goal of *amici* is to educate the public about the important role of higher education and scientific research in American society. Much research performed by universities affiliated with *amici* is directed to core issues at the forefront of basic science. Groundbreaking university research is later developed—through substantial investment by licensees—into products with wide public benefit. Because universities are core participants in the advancement of science, they should not be disadvantaged in their patent rights—including the right to injunctive relief—either because they license their inventions to others or because they do not engage in direct product development themselves.

SUMMARY OF THE ARGUMENT

1. By express Congressional authorization, universities, and other organizations that pursue scientific research with the aid of federal funds, have authority to patent the inventions resulting from such research. This authority was granted in the Bayh-Dole Act, a unique and phenomenally successful statutory scheme aimed at ensuring the effective transfer of federally funded technological advancements from university to industry for development into products and processes that benefit society.

The Bayh-Dole Act was enacted against the background of established law favoring the grant of injunctions for patent infringement. The Bayh-Dole Act also specifically avoided establishing a default compulsory license regime for federally funded patentable inventions. Instead, Congress established a special administrative procedure for ensuring that the availability of injunctive relief and the rights of exclusion that are fundamental to patent ownership would be adequately constrained. Whatever rule the Court may announce in the unique circumstances of this case, the Court should make clear that it does not intend to upset the careful balance Congress has struck to regulate the degree of exclusivity that universities enjoy in patents derived from federally funded research.

For example, as a result of the Bayh-Dole Act, universities have a strong incentive to enter licensing agreements or other relationships with private businesses, including start-up companies, to develop and commercialize the fruits of their research. The value of these arrangements, as well as the incentives for university innovation, would be diminished by any rule holding that the willingness to license or the lack of direct product development by an inventor weighs against issuance of a court injunction upon a finding of infringement. As a general matter, the willingness of a patentee to grant licenses should not be held against the

patentee in seeking an injunction against infringers. Nor should the fact that that a university or other non-profit organization relies on others to make products practicing the invention rather than engaging in direct product development count against such organization in determining whether to grant an injunction in cases of patent infringement.

2. Even setting aside the Bayh-Dole Act, scientific research at universities is at the very core of what the patent laws of this country were designed to protect. The work of university researchers is often at the forefront of scientific awareness. Frequently the inventions are so fundamental that there is no ready market to which they can be immediately applied. Rather, putting these inventions to practical use and developing products based on them can require years of additional research and development, often by start-up companies taking great financial risks. Because this work is so fundamental to scientific advancement, it would merit strong patent protection, including the availability of injunctive relief, even without the special statutory scheme of Bayh-Dole.

Finally, the practices of universities raise none of the concerns regarding abuse of patent rights that are at the basis of calls for far-reaching patent legislation reform and changes in the standards for issuance of injunctive relief. Universities make material contributions to the advancement of knowledge and funnel royalties back into further research. Their scientific research is at the core of efforts to develop many advanced technologies. They do not merely buy the patents of others and seek to exploit them against those who have developed similar solutions. Universities convey licenses and are involved in the creation of start-up enterprises to fulfill their obligations in connection with receipt of federal funds and to bring basic advancements to the public in the first instance. They do not hold back their inventions from public use to create anti-competitive effects and protect their own market position. Indeed, they generally

do not have any product in the market to protect. Thus, many factors that might influence the equitable decision of whether to grant an injunction in cases of abusive practices simply do not apply to universities.

ARGUMENT

I. THE BAYH-DOLE ACT CREATES A UNIQUE STATUTORY SCHEME GOVERNING THE PATENT RIGHTS OF FEDERALLY FUNDED RESEARCH EFFORTS AND IS PREMISED ON THE AVAILABILITY OF INJUNCTIVE RELIEF

A. Prior to the Bayh-Dole Act, Federally Funded Scientific Research Rarely Made Its Way to Consumer Products

Before the enactment of The Patent and Trademark Law Amendments Act of 1980, commonly known as the Bayh-Dole Act, the federal government lacked a unified federal technology transfer policy. Absent special agreements, titles to patents covering inventions derived from federally funded research were held by the federal government. The lack of a unified structure for the government to license its patents resulted in a huge surplus of unlicensed, government-owned patents, despite efforts to streamline government patent-policy. Lacy, Brown & Rubin, *Technology Transfer Laws Governing Federally Funded Research and Development*, 19 Pepp. L. Rev. 1, 9 (1991). In addition, the private sector was not keenly interested in licensing government patents because non-exclusive licenses to government inventions offered little incentive to invest in the commercialization of the invention, and exclusive licenses were difficult to come by for bureaucratic and political reasons. *Id.* *See also* United States General Accounting Office Report to Senate Comm. on the Judiciary and House Comm. on the Judiciary, Technology Transfer: Administration of the Bayh-Dole Act by Research Universities 2 (May 1998) (hereinafter *1998 GAO Report)*

(noting that those seeking to utilize federally-owned patents faced numerous regulatory barriers that made commercial development difficult, if not impossible).

B. The Bayh-Dole Act Allows Universities to Patent Inventions Derived from Federally Funded Research, Encourages Technology Transfer, and Is Premised Upon the Availability of Injunctive Relief.

The Bayh-Dole Act dramatically reformed U.S. patent policy with respect to government-sponsored research by establishing uniform procedures to allow universities, non-profit institutions, and small businesses to obtain title to inventions discovered through federally funded research. P.L. No. 96-517 (Dec. 12, 1980) (codified at 35 U.S.C. § 200-212). In granting universities ownership of their inventions, the legislation envisioned universities licensing and forming partnerships with the private sector to enable "private industry to utilize government funded inventions through the commitment of risk capital necessary to develop such inventions to the point of commercial application" H.R. Rep. No. 96-1307, pt. 1, at 3 (1980).

The Bayh-Dole Act applies to all research conducted under federal funding arrangements with universities and other identified institutions. Key terms of such funding arrangements are dictated by the Act and its implementing regulations, and these terms delineate the rights and responsibilities of the research contractor and the funding agency. 35 U.S.C. §§ 201(b), 202; 37 C.F.R. § 401.1 *et seq.* (1987). Under 35 U.S.C. § 202, for example, academic institutions and other non-profit contractors may elect to take title to their inventions. If they do take title, they are required to seek patent protection for the invention, *id.* at § 202(c)(3); to grant the government a non-exclusive, non-transferable, paid-up right to practice the invention throughout the world, *id.* at § 202(c)(4); to favor United States industry in licensure of their patents, *id.* at § 202(c)(8), 204; and to comply with

disclosure and periodic reporting requirements, §§ 202(c)(1)-(c)(3), (c)(5), (c)(6).

The Bayh-Dole Act also addresses the educational and research obligations of universities and ensures that individual inventors receive adequate incentives and rewards. For example, 35 U.S.C. § 202(c)(7) specifies that government funding agreements shall include language providing for patent royalties to be shared with the inventor of the subject patent. The statute also requires that the remaining income, after the payment of expenses, be used to support further scientific research or education. *Id.* *See also* 37 C.F.R. §§ 401.3, 401.14(k)(2) and 401.14(k)(3) (regulations governing content of funding agreements and distribution of royalty income). Thus, the Bayh-Dole Act and its regulations are carefully crafted to reward innovation and to support further research in upholding the Constitutional mandate to promote the "Progress of Science."

i. The Federal Government's "March-In" Right Under Bayh-Dole Strikes a Legislative Balance, Providing Incentives for Innovation and Promoting Public Access to Inventions.

The Bayh-Dole Act includes express provisions to balance the public's interest in the fruits of federally funded research against the goal of providing incentives to innovators. In doing so, the Act declines to implement a mandatory licensing scheme as a default regime to promote the diffusion of inventions. Instead, 35 U.S.C. § 203 contains a unique "march-in right" for the federal government in the event that a university or other covered entity does not undertake adequate efforts to achieve the practical use of a patented invention. This march-in right is the means that Congress chose to ensure that inventions derived from federally funded research would be adequately disseminated to the public consistent with the need to provide adequate incentives to university and other non-profit researchers to innovate. The march-in right exists against the background

law governing the availability of injunctive relief. Indeed, legislators recognized that the Bayh-Dole Act would confer a "type of monopoly privilege" on universities. H.R. Rep. No. 96-1307, pt. 1, at 30 (1980) (statement of Congressman Jack Brooks).

Under 35 U.S.C. § 203, in the event that the patentee and its licensees are not acting diligently in achieving the practical application of the patented invention, the funding agency, subject to procedural safeguards that protect the rights of the universities, may take specific action to promote the diffusion of the patented invention.[2]

Under Section 203(a) the federal agency

> shall have the right, in accordance with such procedures as are provided in regulations promulgated hereunder to require the contractor, and assignee or exclusive licensee of a subject invention to grant a nonexclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or

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[2] The government may march in on a university or related non-profit institution only in the narrow circumstances when:

(1) action is necessary because the contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use;

(2) action is necessary to alleviate health or safety needs which are not reasonably satisfied by the contractor, assignee, or their licensees;

(3) action is necessary to meet requirements for public use specified by federal regulations and such requirements are not reasonably satisfied by the contractor, assignee, or licensees; or

(4) action is necessary because the agreement required by section 204 has not been obtained or waived or because a licensee of the exclusive right to use or sell any subject invention in the United States is in breach of its agreement obtained pursuant to section 204. 35 U.S.C. § 203(a).

> applicants, upon terms that are reasonable under the circumstances.

35 U.S.C. § 203(a). If the "contractor" refuses, the federal agency may grant such license itself. *Id.* Any agency exercise of its march-in right is subject to appeal in the United States Court of Federal Claims. 35 U.S.C. § 203(b).

The march-in right exists against, and would not be necessary but for the background principles of law making available injunctive relief in cases of patent infringement. Moreover, by specifically referring to "partially exclusive" and "exclusive license[s]," Congress must have understood and intended for true exclusivity—enforced through injunctions—to be an available option.

The march-in right is also significant because it provides a strong incentive for universities to diligently pursue licensing and other opportunities for commercial development. Thus, the Bayh-Dole Act fully addresses in the context of universities and others engaged in federally funded research, concerns that the threat of injunctive relief could be used to deprive the public of important inventions. Moreover, any rule of law that limits the availability of injunctive relief to universities as willing licensors would undermine the careful balance of rights enacted in the Bayh-Dole Act, with its emphasis on licensing.

ii. Congress Enacted Bayh-Dole Against a Legal Backdrop That Did Not Discriminate Against Non-Commercial Researchers in the Granting of Injunctive Relief

The remedy of injunctive relief in cases of patent infringement was well established at the time the Bayh-Dole Act passed, and was not dependent on whether the patent owner made a product claimed in the patent. Indeed, ever since the *Continental Paper Bag* case, this Court has consistently held that the right to injunctive relief does not turn on whether the patent owner itself makes products

covered by the claimed invention. *See Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908) (noting that the "exclusive Right" given by the Constitution to patent owners is not dependent upon commercial use of the invention); *see also Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 34 (1923) (same); *Woodbridge v. United States*, 263 U.S. 50, 55 (1923) (same); *Fox Film Corp. v. Doyal*, 286 U.S. 123 (1932) (same); *Hartford-Empire Co. v. United States*, 323 U.S. 386, 433 (1945); *Special Equipment Co. v. Coe,* 324 U.S. 370, 378-79 (1945).

Although these cases have been criticized as allowing a company to engage in anti-competitive practices by holding back patents that it is not using, no such concern exists with respect to federally funded research by universities. Universities have no incentive to hold back their inventions. They exist to discover and disseminate new knowledge; they advance scientific understanding, providing the foundation for innovative commercial development. In addition, they earn financial returns on their technology only if they license it to others. And to guard against any contrary behavior, the federal government retains the march-in right.

For all these reasons, the rights accorded to universities under the Bayh-Dole Act must be understood to incorporate the long-established principle that injunctive relief is available without regard to a patentee's own commercial exploitation of a patent. *Cf., Lindahl v. Office of Personnel Management*, 470 U.S. 768, 782-83 (1985) ("[T]he fact that Congress amended § 8347 in 1980 without explicitly repealing the established Scroggins doctrine itself gives rise to a presumption that Congress intended to embody Scroggins in the amended version of § 8347."). Indeed, as recently as 2005, Congress has considered broad changes to the availability of injunctive relief, but has continued to allow existing doctrine to stand. *See, e.g.*, "Patent Act of 2005" H.R. 2795, 109th Cong. (2005); *Legislative Hearing on H.R.*

2795, the "Patent Act of 2005," House Jud. Comm. (June 9, 2005).

Considerations of *stare decisis* have special force where property rights are concerned and where investments and contractual arrangements have evolved against settled principles of background law. *United States v. Title Insurance & Trust Co.*, 265 U.S. 472, 486-87 (1924) ("[I]t is of great importance to the public that, when [questions affecting title to property] are once decided, they should no longer be considered open. Such decisions become rules of property, and many titles may be injuriously affected by their change."). Only Congress may enact a prospective rule changing the nature of the property right or remedies available for infringement without upsetting existing expectations.

Because any substantial change to the standards for injunctive relief entails complex economic and policy considerations, Congress is the most appropriate body to adopt a change in law. Congress made no such change in enacting the Bayh-Dole Act, instead using the march-in right to balance competing policy considerations. This Court should not upset the delicate balance Congress struck in enacting the Bayh-Dole Act. In addition, because federally funded research is subject to the Bayh-Dole Act, the willingness of universities to grant licenses to their inventions or to rely on others for commercial development should not be factors weighing against the grant of injunctive relief.

C. The Bayh-Dole Act Has Been Phenomenally Successful in Bringing the Bounty of Federally Funded Research to Consumers

By nearly every account, the Bayh-Dole Act has been phenomenally successful in fostering partnerships between the private sector and universities, in creating commercial applications of government funded research, and, ultimately, in stimulating growth and productivity of the American

economy.[3] As *The Economist* succinctly described it, Bayh-Dole has "helped to reverse America's precipitous slide into industrial irrelevance." *Innovation's Golden Goose*, The Economist, Dec. 14, 2002 at A3. The passage of the Bayh-Dole Act has fueled a technology transfer from the academic community to the private sector that has resulted in an unprecedented period of technological innovation of widespread benefit to the public. Universities and their researchers have benefited from royalty income on their inventions. The government and the public have benefited because more government-funded technology has been brought into commercial use. And the growth of university licensing activity has benefited the overall economy. *See 1998 GAO Report* at 15.

Because of the Bayh-Dole Act, the number of patents annually issued to universities skyrocketed from 250 in 1980, to 1,600 by 1993, to over 3,680 in 2004. *See* Association of University Technology Managers, *AUTM U.S. Licensing Survey, FY 2004: Survey Summary* 2 (Ashley J. Stevens, ed., 2005) (hereinafter *2004 AUTM Survey*). In some years, eighty percent of patents resulted from federally funded research. Kenneth Dueker, *Bio-business on Campus: Commercialization of University-Developed Biomedical Technologies*, 52 Food Drug L.J. 453, 508 (1997). Thirty billion dollars of economic activity each year and over 250,000 jobs can be attributed to the commercialization of academic research. Q. Todd Dickinson, Assistant Secretary of Commerce and Commisioner of Patents and Trademarks, Remarks to The National Academies: Board of Science,

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[3] *See, e.g.*, Rebecca Eisenberg, *Public Research and Private Development: Patents and Technology Transfer in Government-Sponsored Research*, 82 Va. L. Rev. 1663, 1708 n.185 (1996) (quoting statements made during *The Bayh-Dole Act, a Review of Patent Issues in Federally Funded Research: Hearings on Pub. L. No. 96-517 Before the Subcomm. on Patents, Copyrights and Trademarks*, Sen. Jud. Comm., 103d Cong., 1-2 (1994)).

Technology and Economic Policy (Feb. 2, 2000), *transcript available at* http://www.uspto.gov/web/offices/ac/ahrpa/opa/bulletin/academies.pdf. Between 1980 and 2001, 2,922 new companies have formed based on a license from an academic institution. Howard Bremer, Presentation to NASULG: The First Two Decades of the Bayh-Dole Act as Public Policy (Nov. 11, 2001), *transcript available at* http://www.nasulgc.org.

Universities have effectively licensed numerous revolutionary technologies such as Harvard's heart-imaging contrast formulations, University of California's cochlear implants for congenital deafness, Stanford's cancer-detecting synthetic proteins, University of Arkansas' vaccine for avian viruses, Yale's HIV antiretroviral drugs, and MIT's public key data encryption techniques.[4] Government-funded, university-driven technology transfer has given society extraordinary products such as the following:

- One of the greatest advancements in biotechnology in the last few decades is cotransformation, a process invented by three Columbia University researchers that enables the

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[4] *See 1998 GAO Report* at 18-19, 66; AUTM, *Technology Transfer Works: 100 Cases from Research to Realization* 12 (2006), *available at* http://betterworldproject.net; Yale University Office of Cooperative Research, *Bringing Ideas to Life 1982-2002* at 3, *available at* http://www.yale.edu/ocr/images/2002.ocr.annual.report.pdf. *See also* Peter S. Arno & Michael H. Davis, *Why Don't We Enforce Existing Drug Price Controls? The Unrecognized and Unenforced Reasonable Pricing Requirements Imposed upon Patents Deriving in Whole or in Part from Federally Funded Research*, 75 Tul. L. Rev. 631, 636 (2001) ("Government-funded basic research has been largely responsible for the emergence and growth of the biotechnology industry."); Council on Governmental Relations, *University Technology Transfer: Questions and Answers* (Nov. 30, 1993), *available at* http://www.cogr.edu/docs/BayhDoleQA.htm ("Core technologies, likely to spark whole new industries, often result from university patents.").

production of life-saving proteins in living cells. Leading therapeutics for stroke, hemophilia, asthma, lymphoma, multiple sclerosis, and arthritis would not exist today without the cotransformation process. AUTM, *Technology Transfer Works: 100 Cases from Research to Realization* 52 (2006), *available at* http://betterworld-project.net.

- The twenty million Americans who suffer from diabetes can manage the disease more effectively with a wristwatch that monitors their blood-sugar levels without the need to pierce the skin. The watch utilizes a non-invasive glucose monitoring technique invented at the University of California, San Francisco and licensed to Cygnus, Inc. AUTM, *Technology Transfer Stories: 25 Innovations That Changed the World* 56-58 (2006), *available at* http://betterworldproject.net.

- Google, the wildly popular Internet search engine that handles over eighty percent of all search requests, started as a federally-supported research project at Stanford University. Stanford licensed the patent to the revolutionary search algorithms to a start-up founded by the original researchers: today Google, Inc. is a multibillion dollar company. AUTM, *Technology Transfer Stories: 25 Innovations That Changed the World* at 40-42.

The application of university research to pharmaceutical development alone has produced advanced treatments such as: Activase (heart attack and stroke), Allegra (allergies), Avonex (multiple sclerosis), Benefix (hemophilia), Caltrate Colon Health (colon cancer), Enbrel (rheumatoid arthritis), Epogen (anemia, hemophilia, cystic fibrosi), Hepatitis B vaccine, HIBTiter (Haemophilus influenzae, a leading cause of meningitis in children), Humira (rheumatoid arthritis), Leukine (Crohn's Disease), Macugen (degenerative eye disease), Panretin (AIDS-related Kaposi's sarcoma), PSA

Test (prostate cancer), Rebif (multiple sclerosis), Rituxin (non-Hodgkin's lymphoma), Simulect (kidney transplantation), Surgisis (soft tissue damage), Synagis (respiratory synectial virus), Taxol (breast and ovarian cancers), Thryogen (thyroid cancer), transdermal nicotine patch (smoking addiction), Xolair (asthma), Zenapax (organ transplantation). AUTM, *Technology Transfer Works: 100 Cases from Research to Realization.*

Ensuring that patentees can prevent unlicensed parties from practicing their inventions is a significant protection that has helped to make these achievements possible. Under the district court's reasoning in this case, however, the fact that universities themselves have not made the commercial products described above but have engaged in licensing to others would count against the universities in obtaining injunctions against infringers. Such a result is far outside anything Congress intended in enacting the Bayh-Dole Act and has no basis in the sound application of principles of equity.

II. THE AVAILABILITY OF INJUNCTIVE RELIEF PLAYS AN IMPORTANT ROLE IN UNIVERSITY TECHNOLOGY TRANSFERS

A. Effective Technology Transfer and Licensing Depend on the Availability of Injunctions in Cases of Infringement

As explained above, the Bayh-Dole Act sought to address significant problems in technology transfer. The lack of an ownership interest in their inventions discouraged federally funded universities from seeking avenues for commercialization of their scientific advancements. In addition, companies did not make substantial investments to develop products based on patents available through the federal government because of the potential inability to protect their investment.

The availability of injunctive relief in cases of infringement of university-owned patents after Bayh-Dole plays an important role in effective technology transfer arrangements of universities. For example, many universities license their inventions through non-exclusive licenses. The willingness of licensees to enter into such arrangements is likely to be substantially diminished if the university's access to injunctive relief is reduced. This is because non-exclusive licensees lack standing to bring infringement actions. *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1553 (Fed. Cir. 1995) (*en banc*) ("The grant of a bare license to sell an invention ... does not provide standing without the grant of a right to exclude others."), *cert. denied*, 516 U.S. 867 (1995). Such licensees must rely on the patent owner to pursue cases of infringement. Yet, if the university cannot obtain an injunction precisely because it is willing to license its technology and has not commercialized the product itself, the value of a non-exclusive license will be diminished, as will be the incentive of such licensees to make substantial financial investments to develop products under such a license.

In the absence of injunctive relief, the outcome of litigation would often put an infringer in no worse position than if it had decided to take a license. The remedy in most cases would be a reasonable royalty. As a result, infringers would have a strong incentive to risk litigation, since the end result would not be substantially worse than paying a license up front, and they might be able to obtain a competitive advantage while litigation was pending. The willingness of companies to take such a risk is enhanced when the patent owner is a university or other non-profit organization because such institutions generally do not have a stream of income from the sale of commercial products to support patent enforcement litigation efforts.[5]

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[5] For example, in fiscal year 2004, Harvard spent only 2% of its licensing revenue on legal expenses, which covered only part of the

As a result of the practical difficulties universities would face in enforcing their patents in the absence of injunctive relief, the value of licenses they might offer would be radically reduced. Authorized licensees could have no comfort that unauthorized use by others could be brought to a stop. Their own licensing payments would put them at a competitive disadvantage against infringers who were willing to risk detection and enforcement.

Universities would be put in the position of allowing infringement to continue while maintaining their existing commitments to research and education or redirecting their budgets to patent enforcement on the speculative hope that they might, years later, recover royalties sufficient to cover the litigation expense. Only in "exceptional cases" are attorneys' fees available in patent infringement suits. 35 U.S.C. § 285. Treble damages are available only for willful infringement, and even when juries find willfulness, judges retain discretion not to enhance damages. *Rite-Hite Corp. v. Kelley Co., Inc.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987). The limited availability of these remedies to a narrow class of cases suggests that they were not intended to be the sole means of effectively granting the right to exclude, which exists as to all patents. 35 U.S.C. § 154(a)(1). Moreover, the relative effectiveness of treble damages, attorneys' fees, and injunctive relief in creating appropriate deterrents for patent infringement is a complex policy choice that depends on empirical evidence outside the reach of this Court on the record in this case and is appropriately left to the discretion of Congress.

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fees incurred by outside counsel in prosecuting (not enforcing) its patents. *See* Harvard University Office for Technology and Trademark Licensing, *Annual Report to the Committee on Patents and Copyrights Fiscal Year 2004* at 5, *available at* http://www.techtransfer.harvard.edu/files/OTD_AR2004.pdf.

It would be a distortion of the role of the research university to insist that it create a product as a predicate to excluding unlicensed parties from practicing its patented inventions. Yet the district court's ruling in this case, if taken to an extreme, seems likely to lead to such a result. The focus of the university is and always has been to undertake "basic research that may not lead to the creation of new and profitable products or services in the near term." *1998 GAO Report* at 2.[6] Universities rarely operate in a commercial market; instead, they transfer the results of their basic research to the commercial sector for development. Congress clearly contemplated this partnership between scholarship and industry in passing the Bayh-Dole Act, and the Act has greatly facilitated the useful transfer of university research into the commercial sector through university patenting and licensing to companies. This technology transfer has produced enormous benefits to society in the form of new products and processes. Weakening the rights of universities as patentees would only serve to undermine a collaborative system that has worked for decades.[7]

Finally, the incentives of start-up companies to enter into arrangements with universities and make substantial investments under even exclusive licenses could be substantially diminished if injunctive relief were unavailable except to those who already have a product developed. Many companies will not be willing to make the necessary investment even under an exclusive license if the fact that a

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[6] *See also* Howard W. Bremer, Presentation to NASULGC: The First Two Decades of the Bayh-Dole Act as Public Policy (Nov. 11, 2001) ("The generation of [patentable] inventions is almost never the main objective of basic research.").

[7] A system in which unauthorized users pay only a reasonable royalty and continue their practices is even less favorable to patentees than compulsory license schemes that Congress has repeatedly rejected.

competitor gets to market first would mean that an injunction were unavailable because the product of the licensed party had not yet come to market.

B. University Technology Transfer Programs Do Not Raise Concerns Regarding Abuse of Patent Rights.

Legitimate concerns regarding the abuse of injunctive relief by some patent holders do not apply to university licensing practices. Most fundamentally, universities make substantial scientific advances. In most cases, their licensing activity takes place before any product has been developed. They do not merely purchase patents from third parties to assert against existing industries that have already developed products. Universities seek to transfer their technology to industry. They do not hold back their inventions for anti-competitive reasons to protect an existing revenue stream on inferior products. Universities funnel royalty income back into scientific research and to inventors. They do not simply pay the income out in profits to investors. In seeking to transfer their technological developments to third parties to engage in product development, universities are not using their patents as "submarines" waiting for an industry to develop that can later be forced to pay very high settlement demands having made years of investment based on non-assertion of a patent-holder. If a university were to unreasonably withhold its invention from development, the Bayh-Dole Act explicitly provides the safety valve of "march-in rights." *See* 35 U.S.C. § 203.

Thus, while it may be the case that so-called "patent trolls" who do not make significant scientific advancements misuse the patent system by exploiting the availability of injunctive relief, any measures to deal with such misuse should be tailored to the problems associated with such misuse. Universities are not patent trolls.

CONCLUSION

For the foregoing reasons, the standards for obtaining injunctive relief in cases of patent infringement should recognize the unique circumstances of universities and others that operate under the Bayh-Dole Act. Such institutions generally license their inventions and do not make products themselves. Given that the Bayh-Dole Act contemplates the availability of injunctive relief for universities, and encourages them to license their inventions to others for development, the fact that a university engages in willing licensing and does not develop its own products cannot be weighed against the grant of an injunction in cases of patent infringement.

Respectfully submitted,

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March 10, 2006

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(15)

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IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

—against—

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK AS AMICUS CURIAE IN SUPPORT OF PETITIONERS

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January 26, 2006

QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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INTEREST OF AMICUS CURIAE

The Association of the Bar of the City of New York (the "Association"), through its Committee on Patents, submits this *amicus curiae* brief in support of the Petitioners. Petitioners and Respondent have consented to the filing of this brief.[1] The Association is a private, non-profit organization of more than 22,000 attorneys, judges, and law professors who are professionally involved in a broad range of law-related activities. Founded in 1870, the Association is one of the oldest Bar Associations in the United States. The Association seeks to promote legal reform and to improve the administration of justice at the local, state, federal, and international levels through its more than 180 standing and special committees.

The Committee on Patents (the "Committee") is a long-established standing committee of the Association. Its membership reflects a wide range of corporate, private practice, and academic experience in patent law. Members of the Committee are actively involved in both the prosecution and the defense of claims alleging patent infringement. The Committee is thus directly interested in the questions presented in this case and in the maintenance of district courts' traditional authority to grant or withhold injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283.

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1. The parties' letters of consent have been filed with the Clerk in compliance with Rule 37.3. This brief was not authored in whole or in part by counsel for any party. No person or entity other than counsel for the Association made a monetary contribution to the preparation or submission of this brief.

The Association believes that the Federal Circuit has improperly circumscribed district courts' discretion under § 283, to the detriment of the patent system and the public. The award of injunctive relief in patent cases should be governed by the same legal standards as govern the award of injunctive relief in federal cases generally. The "general rule" applied below has no basis in the text of § 283 or applicable decisions of this Court. The judgment of the Federal Circuit in this case should be reversed.

STATEMENT

Respondent is the assignee of U.S. Patent No. 5,845,265 issued December 1, 1998, for a claimed invention entitled "Consignment Nodes" (the "'265 Patent"). The '265 Patent issued on the basis of an application filed November 7, 1995, which application was in turn a "continuation-in-part" of an earlier application filed April 26, 1995.[2]

As used in the '265 Patent, the term "consignment node" refers to "[a]n electronic market" where sellers can "post"

2. A "continuation" application is one that has same disclosure as an earlier-filed "parent" application and is deemed by 35 U.S.C. § 120 to have been filed on the date of the earlier-filed application. A "continuation-in-part" application is one whose disclosure includes but is not limited to material from an earlier-filed application and, to the extent of the common subject matter, is deemed by 35 U.S.C. § 120 to have been filed on the date of the earlier-filed application. A "divisional" application is one that has the same disclosure as an earlier-filed application, but whose claims point to a separate and distinct "invention" as compared with the subject matter claimed in an earlier-filed "parent" application. Under 35 U.S.C. § 121, "divisional" applications are treated similarly to "continuation" applications and may be deemed to have been filed on the date of an earlier-filed "parent" application.

and offer goods for sale and buyers can view and purchase goods so "posted" and offered ('265 Patent at col. 24, lines 30-67 through col. 25, lines 1-12). The '265 Patent contrasts the disclosed and claimed "electronic market" with previously known ways of marketing used and collectible goods, including by placing such goods on display in "shops specializing in these items" (*id.* at col. 1, line 19). The '265 Patent asserts: "The prior art does not provide a means to electronically market used goods or provide an avenue to allow participants to speculate on the price of collectable or used goods in an electronic market place" (*id.* at col. 1 lines 23-26).

In determining whether Petitioners here were liable for infringing the '265 Patent, the courts below were faced with a number of sharply contested legal issues, including the issue of whether the '265 Patent disclosed and claimed subject matter that "would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103(a). This issue is touched on briefly here, because "[e]ven in an action between private individuals, it has long been held that an injunction is 'to be used sparingly, and only in a clear and plain case.'" *Rizzo v. Goode*, 423 U.S. 362, 378 (1976) (quoting *Irwin v. Dixion*, 50 U.S. (9 How.) 10, 33 (1850)).

The district court here submitted the ultimate question of patent validity to a jury for determination.[3] The jury

3. This Court has held that "the ultimate question of patent validity is one of law." *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966). The Petition in this case does not seek review of whether there is any right to trial by jury of ultimate question of patent validity. *Compare Sarkisian v. Winn-Proof Corp.*, 688 F.2d 647, 651 (9th Cir. 1982) ("The court

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answered "no" to the question whether Petitioners "have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid due to obviousness" (Verdict No. 14).[4] The jury's verdict did not identify any facts or legal reasoning on which it was based. On appeal, the Federal Circuit treated the jury's verdict on patent validity under 35 U.S.C. § 103(a) as if it were a general verdict and thus subject to only very limited and deferential review.[5]

(Cont'd)
must, in all cases, determine obviousness as a question of law independent of the jury's conclusion.") *with Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 895 & n.5 (Fed. Cir. 1984) (rejecting *Sarkisian* as making "charades of motions for directed verdict or JNOV under Fed.R.Civ.P. 50 in patent cases.").

4. The Petition in this case does not seek review of whether "clear and convincing evidence," or "preponderance of the evidence," is the applicable burden of proof of invalidity under 35 U.S.C. § 282(2). *Compare Dickstein v. Seventy Corp.*, 522 F.2d 1294, 1297 (6th Cir. 1975) ("a preponderance of evidence is sufficient to establish invalidity") *with Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983) ("the evidence relied on to prove those facts must be clear and convincing").

5. Under Federal Circuit precedent, when a jury renders a verdict on the ultimate legal question of patent validity, post-verdict or appellate review is limited to "re-creating the facts as they *may have been found* by the jury, and . . . applying the *Graham* factors to the evidence of record." *McGinley v. Franklin Sports, Inc.*, 262 F.3d 1339, 1351 (Fed. Cir. 2001) (emphasis added). The Petition in this case does not seek review of whether jury verdicts on ultimate questions of patent validity are properly subject to review only for the existence of "substantial evidence" of factual predicates that may (or may not) have been found. *Cf. In re Lockwood*, 50 F.3d 966, 987-88 (Fed. Cir.) (Nies, J., dissenting) (criticizing submission of ultimate questions of patent validity to juries), *vacated*, 515 U.S. 1182 (1995).

Citing testimony of one of Respondent's experts to the effect that "a person of ordinary skill in the art would not be motivated to modify the system covered by the '111 patent to create the system claimed in the '265 patent,"[6] the Federal Circuit concluded in a one-paragraph analysis that "there was substantial evidence to support the jury's finding of nonobviousness." *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1331 (Fed. Cir. 2005).[7]

Less than two weeks after the Federal Circuit's judgment was issued, the United States Patent and Trademark Office (the "PTO") reached precisely the opposite conclusion and rejected all claims made in the '265 Patent as invalid under 35 U.S.C. § 103(a) in view of the same prior art[8] that had

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6. The "'111 patent" referred to by the Federal Circuit was U.S. Patent No. 5,664,111. The '111 patent discloses an online system for consigning, displaying, and selling goods that is very similar in structure and operation for the "electronic market" disclosed and claimed in the '265 Patent. The '111 patent was never considered by the United States Patent and Trademark Office during the prosecution of the '265 Patent.

7. The Petition in this case does not seek review of the appropriateness of the "motivation" test that the Federal Circuit applied in reviewing the jury's verdict on the ultimate question of patent validity in this case. *Cf. KSR Int'l Co. v. Teleflex, Inc.*, 126 S. Ct. 327 (2005) (No. 04-1350) (order inviting Solicitor General to file a brief expressing the views of the United States on the question of "[w]hether the Federal Circuit has erred in holding that a claimed invention cannot be held 'obvious,' and thus unpatentable under 35 U.S.C. § 103(a), in the absence of some proven 'teaching, suggestion, or motivation' that would have led a person of ordinary skill in the art to combine the relevant prior art teachings in the manner claimed.").

8. In patent parlance the term "prior art," 35 U.S.C. § 103(a), refers to pre-existing knowledge against which the patentability of claimed subject matter must be measured.

been cited in the Federal Circuit's opinion. *See In re Reexamination No.* 90/006,956, Office Action Mar. 24, 2005.[9] The conflicting validity conclusions of the PTO and the Federal Circuit in this case illustrate a point this Court made long ago: "A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office. Moreover, the legal conclusion is predicated on factors as to which reasonable men can differ widely." *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

After rendering their verdict on the ultimate legal question of patent validity and finding that systems operated by Petitioners were described by the words of asserted claims of the '265 Patent,[10] the jury proceeded then to award Respondent exactly $25 million in "reasonable royalty"-type damages for acts of infringement of the '265 Patent committed by Petitioners between December 1, 1998, and the time of trial which commenced April 23, 2003. Under 35 U.S.C. § 284, "reasonable royalty"-type damages are awarded on the basis of what a patentee would reasonably have agreed to accept, and an infringer would reasonably

9. The PTO rejection of March 24, 2005, was "non-final" and so may be reconsidered or overturned by a court at a later date.

10. The Petition in this case does not seek review of what must be shown to establish infringement of a patent under 35 U.S.C. § 271(a). *Compare Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 415-22 (1908) (affirming judgment that configuration of accused machine was both described by claim language and "within the doctrine of equivalents") *and National Rolled Thread Die Co. v. E.W. Ferry Screw Prods., Inc.*, 541 F.2d 593, 599 (6th Cir. 1976) ("infringement is not a mere matter of words") *with Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1579 n.2 (Fed. Cir. 1983) ("an admission of 'claim coverage' is an admission of literal infringement.").

have agreed to pay, in a hypothetical license negotiation conducted just prior to the initiation of an infringement and taking into account then-known non-infringing substitutes and other factors bearing on the value of a claimed invention. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970), *modified*, 446 F.2d 295 (2d Cir. 1971).

With regard to post-trial infringement, the District Court made factual findings that (a) Respondent "did not seek to enjoin eBay but rather sought appropriate damages for the infringement," *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2005); (b) Respondent "will not suffer irreparable harm if the injunction does not issue," *id.*; (c) Respondent "has an adequate remedy at law," *id.* at 713; and (d) "the balance of the hardships tips in favor of the defendants [Petitioners]." *Id.* at 715. The District Court also cited "a growing concern over the issuance of business-method patents" as weighing against an injunctive as distinct from a monetary remedy. *Id.* at 713. The District Court cited *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974), as authority for its decision to remit Respondent to a monetary remedy.

On appeal, after affirming the jury's verdicts on infringement and validity, the Federal Circuit proceeded then to reverse the District Court's denial of respondent's motion for a permanent injunction. *MercExchange*, 401 F.3d at 1338-39. The Federal Circuit did not cite to the District Court's findings with respect to a lack of irreparable harm, adequacy of monetary remedies, or balance of hardships. The Federal Circuit also did not cite or distinguish the Second Circuit's reasoning in *Foster*.

Instead, the Federal Circuit applied what it called a "general rule" that was said to flow from "the concept of property":

> Because the "right to exclude recognized in a patent is but the essence of the concept of property," the general rule is that a permanent injunction will issue once infringement and validity have been adjudged.[11]

According to the Federal Circuit, "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Id.* at 1339. The Federal Circuit held that legal uncertainty or concern over the issuance of "business-method patents"[12] was "not the type of important public need that

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11. 401 F.3d at 1338 (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)).

12. The term "business method patent" is a source of considerable controversy and confusion. The words, "business method," are sometimes used to characterize patents that claim apparatus or machinery configured to implement "business" functions, as here. More recently, and over vigorous dissent, the term "business method" has been used to characterize processes that fall outside any traditional understanding of technology. *See Ex parte Lundgren*, 76 U.S.P.Q.2d 1385, 1385-88 (B.P.A.I. 2005) (per curiam) (reversing rejection of patent claim that recited a "method of compensating a manager"; majority states that "there is currently no judicially recognized separate 'technological arts' test to determine patent eligible subject matter under § 101"). The Petition in this case does not seek review of whether or to what extent the Constitution authorizes issuance of patents on "business methods," or whether or to what extent non-technological subject matter can

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justifies the unusual step of denying injunctive relief." *Id.* The Federal Circuit further held that the cash value of an injunction's impact on an infringer was a "reward" that a district court had no discretion to deny to a prevailing plaintiff. *Id.* Said the Federal Circuit: "if the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." *Id.*

SUMMARY OF THE ARGUMENT

Claims for patent infringement arise from highly diverse circumstances and often raise legal and jury issues whose resolution cannot be predicted with any certainty. Patents may issue years after an accused product or process has been lawfully developed and marketed. A person can commit infringement of a patent without any prior notice or knowledge that he or she is doing so. To say that in all cases and all circumstances, district courts must implement a "general rule . . . that a permanent injunction will issue once infringement and invalidity have been adjudged," 401 F.3d at 1338, is to impose bias in place of the flexibility and discretion that is the very essence of equity jurisdiction.

District courts should be permitted to consider a broad range of factors when exercising equitable discretion under 35 U.S.C. § 283. These include: (a) whether and to what

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be constituted a "process" within the meaning of 35 U.S.C. § 101 or a "difference" within the meaning of 35 U.S.C. § 103(a). *Cf. Funk Bros. Seed Co. v. Kalo Co.*, 333 U.S. 127, 132 (1948) (discovery of unpatentable, pre-existing natural phenomenon could not be "borrowed from" to render claimed subject matter patentable).

extent the harm caused by an infringer is "irreparable" in character or admits of "adequate" monetary remedy; (b) whether and to what extent infringing activity may have been initiated lawfully and without notice or knowledge of a patent; (c) whether and to what extent a patentee may have delayed in presenting or asserting a claim of infringement; (d) whether and to what extent a claim of patent infringement raised novel, unsettled, or legitimately contested questions of law; (e) whether and to what extent injunctive relief would impose undue harm on the infringer, both in absolute terms and relative to the net benefits the patentee would gain from the injunction; and (f) the extent to which injunctive relief would injure third parties who had no opportunity to participate in the litigation. In suggesting that only "important public need" can justify withholding injunctive relief against adjudged patent infringement, 401 F.3d at 1339, the Federal Circuit has inappropriately circumscribed the range of factors that district courts can and should consider when deciding if injunctive relief is "in accordance with the principles of equity." 35 U.S.C. § 283.

The Court should not reconsider, but to the contrary should reaffirm its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to issue permanent injunctive relief against patent infringement. *Continental Paper Bag* correctly and properly held that a patentee's right to seek injunctive relief is not conditioned upon the patentee itself commercially exploiting a claimed invention. This holding is sound and should be reaffirmed. At the same time, *Continental Paper Bag* and other precedents of this Court recognize district courts' broad discretion to grant or withhold injunctive relief on the basis of the particular facts and equities as they may appear from evidence presented in a given case.

ARGUMENT

I. DISTRICT COURTS' DISCRETION UNDER § 283 IS NOT PROPERLY CIRCUMSCRIBED BY A "GENERAL RULE" THAT IGNORES THE PARTICULAR EQUITIES PRESENT IN A GIVEN CASE.

"The basis of injunctive relief in the federal courts has always been irreparable harm and inadequacy of legal remedies." *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 506-07 (1959). "In each case, a court *must* balance the competing claims of injury and *must* consider the effect on *each* party of the granting or withholding of the requested relief." *Amoco Prod. Co. v. Village of Gambell*, 480 U.S. 531, 542 (1987) (emphasis added). *See Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-12 (1982).

The district court here applied these well-settled principles of equity; the Federal Circuit cast them aside in favor of a "general rule" that flies in the face of this Court's precedents construing federal courts' equity powers and their proper exercise. If there is a "general rule" that governs this case, it is "the fundamental principle that an injunction is an equitable remedy that *does not* issue as of course." *Amoco*, 480 U.S. at 542 (emphasis added). *Accord Weinberger*, 456 U.S. at 311 (quoting *Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933) (Brandeis, J.)).

The "general rule" applied below is a recent construct of the Federal Circuit that has no basis in the text of § 283 or any decision of this Court. The sole authority cited for the "general rule" applied below was a 1989 Federal Circuit panel decision, *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). *Richardson*, in turn, cited to dictum

in *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983) ("the right to exclude recognized in a patent is but the essence of the concept of property") and Federal Circuit panel decisions from the 1980's that by steps characterized permanent injunctive relief in patent cases as "the norm"[13] and "usually granted."[14]

The award of injunctive relief in patent cases should be governed by the same legal standards as govern the award of injunctive relief in federal cases generally. This is the clear import of 35 U.S.C. § 283. The Congress well knows how to limit or foreclose federal courts' equitable discretion in particular categories of cases;[15] it clearly did not do so in § 283. *See Amoco*, 480 U.S. at 542 ("Unless a statute in so many words, or by a necessary and inescapable inference, restricts the court's jurisdiction in equity, the full scope of that jurisdiction is to be recognized and applied.") (quoting *Weinberger*, 456 U.S. at 313 (quoting *Porter v. Warner Holding Co.*, 328 U.S. 395, 398 (1946))).

In patent cases, as in all other cases, federal courts should consider the totality of the circumstances in determining whether to grant or withhold permanent injunctive relief in a given case — as the district court did here. That patents "have the attributes of personal property," 35 U.S.C. § 261,

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13. *KSM Fastening Sys., Inc. v. H. A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985) (dictum).

14. *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (dictum).

15. *Cf. Tennessee Valley Auth. v. Hill*, 437 U.S. 153, 173 (1978) (Endangered Species Act foreclosed the exercise of the usual discretion held by courts of equity).

is simply not a basis for exempting patent cases from principles of equity that govern the award of injunctive relief in federal cases generally. *Cf. Dun v. Lumbermen's Credit Ass'n*, 209 U.S. 20, 22-24 (1908) (copyright plaintiff was properly refused injunction and remitted to a monetary remedy, where copied portion of accused work was "insignificant" in relation to the accused work as a whole, accused work had a specialized focus as compared with the copyrighted work and reflected substantial independent effort, and balance of hardships favored withholding of an injunction and remitting the plaintiff to a monetary remedy); *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (patent plaintiff was properly remitted to a monetary remedy where ordering a cessation of infringers' activity would not have been to the benefit of either party; stating that an injunction "is not intended as a club to be wielded by a patentee to enhance his negotiating stance.").

One factor that bears on the appropriateness of permanent injunctive relief in patent cases is the nature and extent of the harm that is caused by a person's infringement. In the injunction context "irreparable" harm includes harm that cannot be accurately quantified in monetary terms.[16] Unauthorized use of a patented invention may well give rise to injury that is "irreparable" in this sense, but this is not a necessary or inevitable result of every patent infringement.[17]

16. *E.g.*, *Warner-Lambert Co. v. Northside Dev. Corp*, 86 F.3d 3, 8 (2d Cir. 1996) (affirming preliminary injunction where claimed loss of "consumer goodwill" flowing from defendants' distribution of stale branded product was "not accurately compensable").

17. In one of its earliest decisions, the Federal Circuit held that "where validity and continuing infringement have been clearly established, . . . immediate irreparable harm is presumed." (Cont'd)

Beneath the rhetoric of the Federal Circuit's opinion below is a simple truth: when a patented invention is part of an existing apparatus or process, the costs of complying with a patent injunction may be orders of magnitude higher than any "reasonable royalty" that an infringer might have agreed to pay *ex ante* for a license to use the patented invention. Injunctive relief in such situations can thus force an infringer to settle a patent claim for an amount of money that greatly exceeds any legally cognizable "damages" that may be caused by the infringement or recovered in a civil action.[18]

Where an injunction is sought, not for relief from impacts flowing from an infringer's commercial conduct in the marketplace, but for the purpose of setting up a settlement demand for the value of all or part of an infringer's injunction

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Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1581 (Fed. Cir. 1983) (footnotes omitted). Although conduct threatening certain types of injury that is both incapable of quantification and difficult to prove (e.g., false statements affecting a person's business reputation) has long been "presumed" to cause "irreparable harm," this Court has never held that patent infringement falls in this category. The Court need not decide whether patent infringement is or ought to be "presumed" to cause "irreparable harm" in any or all cases, since the district court here found, as a fact, that Petitioners had rebutted the *Smith* "presumption" with evidence, 275 F. Supp. 2d at 712-13, a finding the Federal Circuit left undisturbed.

18. Monetary remedies for patent infringement are limited by statute to "damages," 35 U.S.C. § 284, that is, compensation for what an infringer "loses" as a result of the infringement. *See Aro Mfg.Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 (1964). Patentees formerly were entitled to seek recovery of an infringer's profits from infringement, but that remedy was repealed by Congress in 1946. *Id.*

compliance costs, a district court may well be justified in concluding that the complainant has an "adequate" monetary remedy — as the district court found here. *Cf. Nerney v. New York, N.H. & H.R. Co.*, 83 F.2d 409, 411 (2d Cir. 1936) (in patent case, where "the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue.").[19] Nothing but litigation strategy prevented this Respondent from claiming and proving up "reasonable-royalty"-type damages on a "fully-paid up" basis.[20]

The nature and extent of an injunction's impact on an infringer, and the extent to which a claim of infringement was foreseeable by an infringer, are additional factors that may bear on the appropriateness of injunctive relief in patent cases.[21] The weight that a court should give these factors will vary from case to case.

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19. In *Nerney*, the patent-in-suit involved a type of railroad brake assembly. The transfer of rolling stock from one railroad carrier to another made it impracticable for any one carrier to avoid receiving and being asked to transport cars that allegedly embodied the claimed invention.

20. *Cf. Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001) (affirming judgment awarding "reasonable-royalty"-type damages on a "fully paid-up" basis).

21. 35 U.S.C. § 287 limits even monetary relief for infringement where a patentee has failed to give notice of patent rights by marking articles embodying a patented invention. This statute is further recognition that persons accused of infringement may have equities or intervening rights in their favor that limit the availability of remedies for infringement.

Where an infringer is shown to have had both actual prior knowledge of a patent and no reasonable basis for contesting validity or infringement, a court of equity may be justified in concluding that such an infringer has only itself to blame for any burden that may attend compliance with a permanent injunction. In such a case the impact of an injunction on the infringer may count for very little in an equitable balance.

On the other hand, patent infringement can occur quite by accident.[22] Patent applications can properly remain pending for years in the PTO with no loss of priority.[23] A company may invest in tooling or apparatus that infringes no one's patent at the time of the investment, and yet subsequently find itself sued for infringement of a patent of which it neither had nor could have had any prior notice or knowledge.[24] In such a case, the impact of an injunction on an infringer may count for a great deal in an equitable balance.

A pair of this Court's decisions exemplifies how principles of equity can lead to different outcomes depending

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22. 35 U.S.C. § 271(a) includes no requirement of knowledge or intent or copying.

23. *Overland Motor Co. v. Packard Motor Co.*, 274 U.S. 417, 423-27 (1927).

24. Prior to November 29, 2000, 35 U.S.C. § 122 required that all United States patent applications be kept in confidence unless and until a patent was issued. Effective November 29, 2000, 35 U.S.C. § 122 was amended to require that certain United States patent applications be published after eighteen (18) months from the earliest claimed priority date of filing. Even with this amendment, substantial numbers of patent applications remain completely secret unless and until a patent issues, and all patent applications remain secret for at least 18 months from the earliest claimed priority date of filing.

on the circumstances giving rise to a claim of patent infringement. In *Abercrombie & Fitch Co. v. Baldwin*, 245 U.S. 198 (1917), this Court affirmed a judgment awarding permanent injunctive relief where:

> It will be remembered that this company entered the field with its lamp at a time when the validity and scope of the Baldwin patent were still unquestioned and when after some five years of capable effort, the Baldwin lamp had created an extensive market. The Justrite Company took its chances. . . . I see nothing in the course of plaintiffs or defendants which would allow a court of equity to conclude that defendants are to be relieved because of intervening rights.[25]

The Court reached an opposite result in *Webster Elec. Co. v. Splitdorf Elec. Co.*, 264 U.S. 463 (1924). In that case, the activity challenged as infringement had been lawfully initiated prior to issuance of the asserted patent. The asserted claim had been presented to the PTO for the first time by way of an amendment to a "divisional" application made more than five years after the claimed subject matter had been described in a printed publication and more than three years after the *Webster* lawsuit had been commenced. Notwithstanding that the plaintiff's "divisional" patent application related back to the date of an original "parent" patent application[26] and so was not anticipated by the

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25. 245 U.S. at 209-10 (quoting district court opinion).

26. *See Chapman v. Wintroath*, 252 U.S. 126, 137 (1920) ("where an invention clearly disclosed in an application, as in this

(Cont'd)

intervening printed publication, this Court held that the plaintiff's delay in presenting his claim to the Patent Office "was an exigent afterthought, rather than a logical development of the original application," and "under the circumstances shown by the record, constitute[d] laches, by which the petitioner lost whatever rights it might otherwise have been entitled to." 264 U.S. at 466.

Even where a person initiates or continues challenged activity with knowledge of an adversely-held patent, there may be legitimate reasons for disputing infringement, contesting the validity of the patent, or both. To a far greater degree than with rights to exclude use of tangible personal or real property, rights to exclude use of "patented invention[s]" are subject to numerous and substantial uncertainties including (a) the legal scope of a patent grant, including the existence and scope of prosecution history estoppels; (b) whether a claimed invention satisfies numerous conditions for patentability; (c) whether an accused product or process is "equivalent" to a claimed invention; and (d) whether and how this Court will resolve substantial conflicts that currently exist between Federal Circuit and

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(Cont'd)

case, is not claimed therein but is subsequently claimed in another application, the original will be deemed a constructive reduction of the invention to practice and the later one will be given the filing date of the earlier, with all of its priority of right."). The relation back principle of *Chapman* was subsequently codified in 35 U.S.C. § 120. *See* S. Rep. No. 82-1979 (1952), *as reprinted in* 1952 U.S.C.C.A.N. 2394, 2400 ("Sections 120 and 121 express in the statute certain matters which exist in the law today but which had not before been written into the statute. . . .").

regional circuit precedent on core patent law issues.[27] In a given case, uncertainties surrounding whether an asserted patent is valid, or whether challenged conduct infringes a patent, may give rise to equities that bear on the appropriateness of permanent injunctive relief.

Courts' exercise of discretion under § 283 should also take account of "[t]he far-reaching social and economic consequences of a patent." *Precision Instrument Mfg. Co v. Automotive Maint. Mach. Co.*, 324 U.S. 806, 816 (1945). *See Weinberger*, 456 U.S. at 312 ("In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction."). The public interest in patent injunctions is not limited to "need" for a patented invention. 401 F.3d at 1338. *Cf. Ensten v. Simon, Ascher & Co.*, 282 U.S. 445, 452-53 (1931) ("The same principle which forbids a patentee to assert a right to more than he has actually invented compels him to disavow the right as soon as he discovers that it has been unjustly claimed") (quoting 2 W. Robinson, *Law of Patents* 284 (1890)); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518-19 (1917) (declaring invalid a notice purporting to condition

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27. For example, on the legal standard of infringement, *compare Smith*, 718 F.2d at 1579 n.2 ("an admission of 'claim coverage' is an admission of literal infringement") *with National Rolled Thread Die Co. v. E.W. Ferry Screw Prods, Inc.*, 541 F.2d 593, 599 (6th Cir. 1976) ("infringement is not a mere matter of words") (quoting *Nickerson v. Bearfoot Sole Co.*, 311 F.2d 858, 881 (6th Cir. 1962) (quoting *General Elec. Co. v. Allis-Chalmers Co.*, 178 F. 273, 276 (3d Cir. 1910))). *See also* notes 3-5, 7, 10, and 12, *supra*.

use of apparatus embodying patented invention on purchase or lease of unpatented supplies).[28]

35 U.S.C. § 282(2) makes "invalidity" a defense to any action for patent infringement. An invalid patent, by definition, improperly excludes public use of subject matter that the public has a "federal right to 'copy and to use.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 165 (1989). The legal standards governing the exercise of discretion under § 283 directly affect the risk profile of patent validity challenges and thus the likelihood that accused infringers will mount challenges to patent validity, with the accompanying public benefits that flow from judicial invalidation of bad patents.

The "general rule" applied below severely chills and discourages court challenges to patent validity. According to the decision below, a person who contests the validity of a patent and fails to persuade a lay jury to make a correct (and, under Federal Circuit precedent, all but unreviewable)

28. *Motion Picture Patents* did not involve any question of "misuse" or liability under the Sherman Act, but merely whether a notice affixed to a machine sold by the patentee was operative to terminate an implied license to use the machine that had accompanied the machine's sale. *Cf. Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 125 S. Ct. 2937 (2005) (No. 04-1329) (granting certiorari to review whether courts should presume that patents confer "market power" sufficient to establishing that tying patent license to purchase of unpatented supplies gives rise to per se violation of Section 1 of the Sherman Act, 15 U.S.C. § 1). On the other hand, the existence and closeness of substitutes for a patented invention may bear on the impact of an injunction and hence the appropriateness of an award of injunctive relief in a given case, just as it may bear on the amount of "reasonable royalty"-type damages that may be recovered as compensation for infringement.

determination of the ultimate legal question of patent validity, confronts a judge-made "general rule" that the risk of failure is potentially crippling injunctive relief in the absence of review by this Court. That was never the law prior to the creation of the Federal Circuit, and should not be the law today.

In sum, the circumstances giving rise to patent infringement liability do not fit or fall into any "general" pattern of stereotype, and remedies for patent infringement are not properly dictated by a "general rule" that purports to displace and trump traditional principles of equity. In holding to the contrary, the Federal Circuit has erred.

II. THE COURT SHOULD REAFFIRM ITS PRECEDENTS ON PATENT INJUNCTIONS.

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), this Court reviewed a judgment awarding a permanent injunction against infringement of U.S. Patent No. 558,969 entitled "Paper-Bag Machine" (the "'969 Patent" or the "Liddell patent"). Two questions were presented in *Continental Paper Bag*: (1) whether the lower courts had erred in finding infringement of the '969 Patent; and (2) whether the lower courts had erred in awarding a permanent injunction. The Court's decision in *Continental Paper Bag* turned on its resolution of both questions.

The '969 Patent disclosed and claimed apparatus for automatically folding and forming paper bag material. The apparatus comprised a "rotating cylinder," a "forming plate," and "operating means for the forming plate adapted to cause the said plate to oscillate about its rear edge upon the surface of the cylinder during the rotary movement of said cylinder, the whole operating for the purpose of opening and forming the bottom of the bag tube." 210 U.S. at 417.

It was undisputed that the words of the recited "operating means" element described a structure that was found in the accused machine. But this fact was not determinative of the issue infringement. In affirming the judgment of infringement in *Continental Paper Bag*, this Court held, first, that "Eastern Company [the plaintiff/respondent] may invoke for the Liddell patent the doctrine of equivalents," 210 U.S. at 415; and second, that the accused mechanism had properly been held by the lower courts to be "within the doctrine of equivalents." *Id.* at 421-22. The foundation for the injunction in *Continental Paper Bag* was a person's having used mechanical means for performing a useful result that were found to be equivalent to corresponding structures disclosed and claimed in the complainant's patent.[29]

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29. In *Westinghouse v. Boyden Power Brake Co.*, 170 U.S. 537 (1898), this Court stated the standard of patent infringement to be as follows:

> As was said in *Burr v. Duryee*, 1 Wall. 531, 573, an infringement 'is a copy of the thing described in the specification of the patentee, either without variation, or with such variations as are consistent with its being in substance the same thing. If the invention of the patentee be a machine, it will be infringed by a machine which incorporates in its structure and operation the substance of the invention; that is, by an arrangement of mechanism which performs the same service or produces the same effect in the same way, or substantially the same way. . . . That two machines produce the same effect will not justify the assertion that they are substantially the same, or that the devices used are, therefore, mere equivalents for those of the other.'

170 U.S. at 569 (quoting *Burr v. Duryee*, 68 U.S. (1 Wall.) 531, 572-73 (1864)).

Confronted, thus, with an infringer that was not just a manufacturing competitor of the complainant, but one whose paper bag making machinery operated in substantially the same way as the machinery disclosed and claimed in the complainant's patent; and in the context of a suit between manufacturing rivals in which the complainant would benefit competitively from a cessation of the infringement irrespective of any subsequent settlement, the Court turned to the second question presented in *Continental Paper Bag*, which was whether the complainant's failure to commercialize the invention of the '969 Patent[30] was a complete bar to issuance of injunctive relief that was otherwise warranted in equity. The Court answered this question "no." 210 U.S. at 422-30. This holding was clearly correct and should be reaffirmed.

"This Court has consistently held that the failure of the patentee to make use of the patented invention does not affect the validity of the patent." *Special Equip. Co. v. Coe*, 324 U.S. 370, 378-79 (1945). That is not to say that in a given case, a patentee's failure to exploit a patented invention might not have a bearing on whether, in an equitable balance, injunctive relief is warranted under all the circumstances. But a patentee's right to injunctive relief under § 283 is clearly not *conditioned* on the patentee itself exploiting the patented invention that is the subject of an infringement suit. For all of the reasons set forth in Part I, above, any such "general rule" limiting injunctive relief would be contrary to principles of equity. Reversal in this case does not require or call for any such categorical approach.

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30. The complainant in *Continental Paper Bag* contended that the invention of the '969 Patent did not provide sufficient commercial advantage over the complainant's existing manufacturing equipment as to justify replacing the latter prematurely. 210 U.S. at 429.

In cases decided subsequent to *Continental Paper Bag*, this Court has recognized district courts' broad authority and discretion to grant or withhold injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283. The legal standard applied below departs sharply from established equitable principles, and should be reversed.

CONCLUSION

For the reasons set forth above, the Court should reverse the judgment of the Court of Appeals.

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR AMICUS CURIAE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA — PATENT, TRADEMARK & COPYRIGHT SECTION IN SUPPORT OF NEITHER PARTY

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BRIEF FOR AMICUS CURIAE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA — PATENT, TRADEMARK & COPYRIGHT SECTION IN SUPPORT OF NEITHER PARTY

THE INTEREST OF AMICUS CURIAE

The Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia ("BADC") respectfully submits this brief as amicus curiae in support of neither party.[1]

The BADC is one of the senior-most intellectual property bar associations in the United States, drawing its membership from government, industry and private practice. The BADC and its members have a substantial interest in the adjudication of significant issues defining our intellectual property laws, and only submit amicus curiae briefs when issues of such magnitude arise. The case at bar presents such an important issue for our patent laws, namely defining the evidentiary criteria for determining availability of injunctive relief as a remedy for patent infringement. The BADC directs the Court's attention to political factors that may impact its reconsideration of precedent involving the grant of injunctions under 35 U.S.C. § 283.

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[1] This amicus curiae brief is presented by the Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia under Supreme Court Rule 37.3(a). The parties have consented to the filing of this amicus curiae brief via blanket letters of consent on file with the Court. In accordance with Supreme Court Rule 37.6, no counsel for a party authored any part of this brief. Only this amicus curiae made a monetary contribution to the preparation and submission of this brief. Counsel prepared this brief on a pro bono basis.

SUMMARY OF THE ARGUMENT

In passing legislation codified at 35 U.S.C. § 283, Congress directed that injunctive relief is an equitable remedy that may be levied to prevent the violation of patent rights. The statute stipulates that such injunctions may be granted on terms deemed reasonable by courts having jurisdiction in patent disputes.[2] What Congress did not statutorily delineate is the criteria courts should consider in determining whether the grant of an injunction is an appropriate remedy for patent infringement. District court judges, as the gatekeepers and evaluators of probative evidence, are authorized to make such determinations.

The district court in this case noted a number of reasons upon which it based its decision to deny MercExchange's request for a permanent injunction. MercExchange, L.L.C. v. eBay, Inc., 275 F. Supp. 2d 695, 711-715 (E.D. Va 2003). The Federal Circuit found these reasons to be insufficient to decline entering a permanent injunction against eBay. MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1338-39 (Fed. Cir. 2005). Those reasons included legislation introduced in Congress regarding the validity of business-method patents. Id. at 1339; 275 F. Supp. 2d at 713-714. They also included MercExchange's lack of commercial activity in practicing the patents. Id.; 275 F. Supp. 2d at 712, 714. The issue of lack of commercial activity in practicing those patents, i.e., a working requirement, was involved in proposed legislation not specifically cited by the court. Thus, in essence, the

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[2] 35 U.S.C. § 283 recites: "The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

subject matter of two pieces of proposed or draft, but not enacted, legislation were taken into account in evaluating whether or not to invoke an equitable remedy against a patent infringer.

Because of its unsettled political nature, the BADC questions the extent to which the judiciary can rely on *proposed* or *draft* legislation when determining the availability of injunctive relief under our patent laws.[3] To illustrate the mischief this practice encourages, the BADC discusses herein our country's disparate views on linking patent enforcement with a working requirement. The BADC respectfully requests that, while reviewing its precedent on the grant of injunctions in patent cases, this Court clarify whether politically-based evidence, i.e., proposed or draft legislation, may be considered in the application of 35 U.S.C. § 283.

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[3] The BADC takes no position on whether a presumption exists for employing Section 283 as a remedy for patent infringement.

ARGUMENT

I. PITFALLS OF RELYING ON DRAFT LEGISLATION WHEN ASSESSING INJUNCTIVE RELIEF

Members of the patent bar, Congress, and the Executive Branch do not hold uniform views on policy factors supporting the grant of an injunction under 35 U.S.C. § 283. These views vary depending upon the nature of the invention being patented, essentially pitting the interests of the pharmaceutical and software fields against each other. This is precisely why the BADC could not support either party to this appeal; its membership is split on the issue.

A. Industry Disagreement on Working Requirements

As exemplified in the instant case, as well as recent litigation over the technology that enables Blackberry™ usage, the assertion of patent rights by patent holding companies has distorted the balancing act typically exercised between competitors in the software and electronics industries. NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005), cert. denied, 126 S. Ct. 733 (2005) ("the Blackberry™ case"). These holding companies, sometimes refered to as "patent trolls," acquire the rights to United States letters patent, but do not seek to reduce the inventions to marketable products. Instead, they seek "a licensing fee settling actual or threatened patent litigation, litigation that could result in an injunction" and thus halt production of marketed products. Donald S. Chisum, Reforming Patent Law Reform, 4 J. MARSHALL REV. INTELL. PROP. L. 336, 340 (2005). Because they do not market their own competing products, "patent trolls" have no

incentive to end disputes by cross-licensing patents with the alleged infringer. Id.

Although both the defendants in the case at hand and the Blackberry™ case were sued by companies that meet Professor Chisum's definition of "patent trolls," the availability of an injunction differed between these cases. The district court adjudicating the Blackberry™ case is poised to enjoin defendant Research In Motion if the parties fail to reach a suitable settlement. See Yuki Noguchi, Ruling Puts Blackberry Maker at Crossroads, WASH. POST, Dec. 1, 2005, at D1. By contrast, the district court adjudicating the instant case did not grant a permanent injunction against eBay, in part because MercExchange does not produce products based on the patents the jury found eBay infringed. MercExchange L.L.C., 275 F. Supp. 2d 695, 712 (E.D.Va. 2003).

This discrepancy illustrates the growing uncertainty facing software and electronic companies marketing products that are often highly successful. Such companies contend that the grant of a permanent injunction should be linked to whether a patentee actually works his patent in order to level an increasingly distorted playing field.

The pharmaceutical and biotechnology industries generally oppose the proposition that a working requirement be linked to the availability of injunctive relief under 35 U.S.C. § 283. See Ted Agres, Patent Changes Looming in United States, 19 THE SCIENTIST 40 (2005). Although "patent trolls" may surface from under a pharmaceutical bridge, they have not gained the prominence seen in the computer and electronics industries. This is due in part to the differences in product lifespan, which is much longer for

pharmaceutical products than for software products. See Federal Trade Comm'n, To Promote Innovation: The Proper Balance of Competition and Patent law and Policy, ch. 3 at 1 -2, 45 (2003) ("FTC Report"), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>. In addition, the outlay for therapeutic product development is substantially greater than it is for software development. Id.

Generally, there are limited numbers overlapping patents for the same chemical or biologic entity, as opposed to the thousands of patents that may clutter the fields of software inventions. Robust intellectual property protection is key to attracting capital investment in the biotechnology sector, but may be less important to software companies. Id. at 1-2, 48-49. The pharmaceutical and biotech industries rely on the enforcement of patents to recoup the substantial resources required to develop pioneering products and to bring those products to the market.

Part of that enforcement strategy is to strictly prevent the making, using, offering to sell, selling or importation of a patented invention pursuant to the exclusive rights conferred under a patent grant. 35 U.S.C. §§ 271(a), 154(a)(1)-(2); see also FTC Report, supra, at 5-6, 18. The text of 35 U.S.C. § 283 provides injunctive relief in accordance with principles of equity to prevent the violation of those exclusive rights. Attaching a working requirement to the calculus for injunctive relief for patent infringement would impair the ability of pharmaceutical and biotechnology companies to maintain reasonable predictability of patent enforcement and, therefore, investor confidence. See FTC Report, supra, at 14, 16-18. Thus, protection strategies divide members of the patent bar along technological lines when it comes to weighing criteria for injunctive relief.

B. No Definitive Governmental Position on Working Requirements

The Supreme Court has considered the issue of the availability of injunctive relief for patentees who do not practice their patents. See Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908). In Continental Paper Bag, this Court noted that Congress qualified the grant of patents to aliens in 1832, requiring them "to introduce into public use in the United States the invention or improvement within one year from the issuing thereof," or risk revocation of their patents. Continental Paper Bag, 210 U.S. at 429. However, this law was repealed in 1836, and as of the holding in Continental Paper Bag, Congress has elected not to reinstate a policy curtailing the rights of patentees due to patent nonuse. Id.

Now, almost one hundred years later, certain groups advocate that the current economic climate in the software industry warrants a reevaluation of the balance between the rights of a patent holder under Sections 271(a) and 154(a)(1)-(2), and the public interest in having patents commercialized. The judicial preclusion of an injunction against a patent infringer has historically been confined to instances in which nonuse of a *particular* patent threatened the public interest. See, e.g., Rite-Hite Corp. v. Kelley, Inc., 56 F.3d 1538, 1547 (Fed. Cir. 1995). Congress, however, has not yet spoken to the issue of conditioning the rights of entire classes of patentees on the commercial practice of their inventions, much less placing such limitations on all owners of U.S. patents. While our legislators have been introduced to the subject, they simply have not reached consensus on how to address it.

Partly in response to the software industry's concerns over the demands of "patent trolls" in patent infringement litigation, Congress proposed draft legislation in 2005 aimed at revamping our patent laws. See Patent Act of 2005, H.R. 2795, 109th Cong., 1st Sess., § 7 (June 8, 2005) (hereinafter "2005 Patent Reform Bill"). Section 7 of the House Committee Print preceding introduction of the 2005 Patent Reform Bill included language directing that permanent injunctions would issue only if the extent to which a patentee makes use of an invention is considered. House Committee Print of Patent Act of 2005 (Apr. 14, 2005), at <http://judiciary.house.gov/media/pdfs/comprint 042005.pdf.>. Courts could not presume irreparable harm under this Committee Print. Id. Changes to Section 283 pertaining to stays of injunctions were also proposed. Id.

During hearings on the proposed legislation, some members of the patent bar voiced opposition to any amendments to our patent laws that would "undercut the exclusive rights conferred under a valid patent to obtain final injunctive relief following a non-appealable holding that the patent is valid and infringed." Written Statement of Gary Griswold before the Subcommittee on Courts, the Internet and Intellectual Property, United States House of Representatives, Washington, D.C., on H.R. 2795, Patent Act of 2005 (June 9, 2005), available at <http://www.aipla.org/Content/ContentGroups/Legislative_ Action/109th_Congress/Testimony5/HouseStmt_PatentAct2 005.pdf>. Clearly, not all members of the patent bar supported the proposed changes to Section 283. As observed by Senator Orrin Hatch, "[a]ltering the standard for determining whether injunctive relief should be granted in a patent infringement case has emerged as perhaps the most

contentious issue in the patent reform debate." Orrin Hatch, Remarks to the Generic Pharmaceutical Association, Sept. 20, 2005, available at <http://www.4ipt.com/IPMetalworks/SenatorOrrinHatchAddressesPharmaConcern.pdf>.

The working requirement was removed before H.R. 2795 was formally introduced. Eventually all amendments to Section 283 were omitted during the tenure of H.R. 2795. Nonetheless, the proposed legislation never advanced past the draft stage. See July 26, 2005, Amendment in the Nature of a Substitute offered by Lamar Smith, available at <http://www.promotetheprogress.com/ptpfiles/patentreform/Patentact2005_IPOcoalitionprint.pdf.> In short, Congress has yet to explicitly require courts to consider the extent to which patentees work their patents when weighing the equities for and against injunctive relief for infringement.

The Executive Branch has also commented on the subject of patent use and the availability of injunctive relief. In its 2003 report, the FTC acknowledged that because of the substantial overlap between innovative advancements, the computer industry is vulnerable to injunctive restrictions from "non-practicing entities," another term for "patent trolls." See FTC Report at 34-36, 39-41. Because numerous patents may cover a single component of a product, innovation in the software arena may be hindered by patenting, potentially harming the American economy. Id. at 52-54. "Hold up" patents, such as those owned by "patent trolls," are thought to drive up costs of computer hardware and software products which are passed along to consumers. Id. at 40-41, 56. However, the FTC did not specifically advocate an alteration in our laws to link patent enforcement to a patentee's practice of its patents.

On the international stage, the Executive Branch opposes any connection between a local working requirement and the enforcement of patent rights, arguing such requirements violate the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"). See Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C to the Marrakesh Agreement Establishing the World Trade Organization (Apr. 15, 1994).

For example, the United States challenged Brazilian legislation in 2001 that authorized compulsory licenses and parallel importation of goods as a means of promoting the local working of patented inventions. See Brazil-Measures Affecting Patent Protection, Request for the Establishment of a Panel by the United States, WT/DS/199/3 (Jan. 9, 2001). The Brazilian legislation applied to patents of all kinds, although the primary driving force behind it was access to HIV/AIDS therapeutics. Id.

The United States Trade Representative argued that the text of the TRIPS agreement prohibits Members from requiring "local production of patented inventions as a condition for enjoying exclusive patent rights." Id. The United States later withdrew its claim without prejudice after entering into bilateral discussions with Brazil. Brazil-Measures Affecting Patent Protection, Notification of Mutually Agreed Solution WT/DS/199/4, G/L/454, IP/D/23/Add.1 (July 19, 2001). Although the local working requirement at issue in the Brazilian dispute is not identical to the working requirement contemplated in the Committee Print preceding H.R. 2795, the Executive Branch's opposition to working requirements under TRIPS is compatible with the position the pharmaceutical and

biotechnology industries have taken with respect to 35 U.S.C. § 283. What is evident is that the Executive Branch has at the very least acknowledged the tension between the exclusivity of patent rights and working requirements, but has not yet pronounced its policy on the issue in the domestic setting.

II. CALCULATING THE PROBATIVE WEIGHT OF POLITICALLY-BASED EVIDENCE

The above discussion exemplifies the unsettled issue of whether imposing a working requirement on U.S. patent owners would ensure fairness in the application of injunctions against patent infringers. None of the entities mentioned above – members of the patent bar, Congress, or the Executive Branch – have reached a definitive stance on how this political hot potato should be handled. Accordingly, there is political uncertainty as to when, if at all, it is appropriate to rely on proposed or draft legislation when considering injunctive relief for patent infringement.

A. Political Questions Are Nonjusticiable

A tenet of American jurisprudence recognizes that certain issues are not capable of resolution by our courts because they fall within the ambit of one of the political branches of government. As this Court explained in 2004:

> As Chief Justice Marshall proclaimed two centuries ago, '[i]t is emphatically the province and duty of the judicial department to say what the law is.' Marbury v. Madison, 1 Cranch 137, 177, 2 L. Ed. 60 (1803). Sometimes, however,

> the law is that the judicial department has no business entertaining the claim of unlawfulness-because the question is entrusted to one of the political branches or involves no judicially enforceable rights. . . . Such questions are said to be 'nonjusticiable' or 'political questions.'

Vieth v. Jubelirer, 541 U.S. 267, 277 (2004) (citations omitted).

Six independent tests may be employed to identify political questions, including, inter alia, a) the impossibility of deciding without an initial policy determination of a kind clearly for nonjudicial discretion; b) the impossibility of a court's undertaking independent resolution without expressing lack of respect due coordinate branches of government and c) the potentiality of embarrassment from multifarious pronouncements by various departments on one question.[4] Baker v. Carr, 369 U.S. 186, 217 (1962). These tests reflect the judicial guidelines established to follow the separation of powers set forth in our Constitution.

The case at hand does not require the Court to determine whether Congress intended *all* patentees to work their patents in order to receive equitable relief under 35 U.S.C. § 283. Nowhere in our patent laws does Congress articulate such a global requirement for patent enforcement. Because neither the Executive nor Legislative arms of our government have expressed a firm, definitive policy on

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[4] The other three Baker tests for nonjusticiability are: 1) a textually demonstrable constitutional commitment to the issue to a coordinate political department; 2) a lack of judicially discoverable and manageable standards for resolving it; and 3) an unusual need for unquestioning adherence to a political decision already made. Baker v. Carr, 369 U.S. 186, 217 (1962).

conditioning patent enforcement on a working requirement in the United States, attempts by the judiciary to settle this thorny question would stray into the political question thicket. Such actions would be contrary to the Baker tests noted above.

B. Politically-Based Evidence and Equitable Relief

Section 283 does direct our courts to apply principles of equity in apportioning equitable relief for patent infringement on terms the court deems "reasonable." See 35 U.S.C. § 283. When wearing their equity hats, district court judges have tremendous leeway in determining what relevant evidence to consider when making an equitable decision, and the weight to give that evidence. See Ortho Pharm. Corp. v. Smith, 959 F.2d 936, 945 (Fed. Cir. 1992) ("[Section 283] grants the district courts broad discretion in determining whether the facts of a case warrant an injunction and in determining the scope of the injunctive relief."); see also D. PRATER ET AL., EVIDENCE: THE OBJECTION METHOD 176 (1997) (noting "[a]ppellate courts recognize that the trial judge has a unique vantage point from which to detect and assess the negative factors that might arise from proffered evidence, and from which to balance these factors against the probative value of the evidence").

In the instant case, the district court considered essentially the subject matter of two pieces of proposed or draft legislation as evidence of public policy. It specifically cited one piece of draft legislation in its reasons to deny MercExchange's request for a permanent injunction against eBay. The Federal Circuit found the district court's rationale an inadequate basis for the denial of an injunction under Section 283. This issue is therefore before the Court.

In view of the Baker tests, the BADC questions the extent to which *proposed* or *draft* legislation should underpin any denial of relief under Section 283. Nascent legislation is not a consensus statement of Congress. It is no secret that legislation often morphs tremendously before being enacted, assuming it ever is enacted. Yet the district court in this case relied on draft legislation as evidence weighing against an injunction. When contemplating the use of proposed or draft legislation as evidence, does it matter which version the court relies upon? As explained above, as initially proposed, the 2005 Patent Reform Act required courts to consider whether a patentee worked his patent as a factor for granting a permanent injunction. As introduced, H.R. 2795 made no reference to a working requirement. A later version of the Bill omitted all language pertaining to Section 283. If a court, following the lead of this case, were to rely on one of the various iterations of H.R. 2795 in deciding a request for a permanent injunction, the version selected could be outcome determinative. The same principle applies to other Bills that are never enacted.

How firm must the proposed or draft legislation be to warrant consideration by a district judge? Should the judge be required to take into consideration any opposing positions on the matter espoused by the Executive Branch if not introduced into evidence by one of the parties to a dispute? Do courts circumvent the political question thicket by relying on "political question" evidence in rendering a decision based in equity? All of these questions come to mind when reading both the district court's and Federal Circuit's decisions in this case.

The BADC suggests that the practice of using proposed or draft legislation to mold equitable decisions generates a slippery slope, as equitable judicial decisions

based on relevant, but nascent political evidence may be de facto pronouncements of policy by courts. If a court were to base an equitable decision on proposed or draft legislation, such as the example used herein, the 2005 Patent Reform Act, would that court run the risk of facilitating "multifarious pronouncements?" Would that be particularly likely if the Executive Branch has taken a somewhat different tack when interpreting a treaty? The use of proposed or draft legislation to determine the applicability of 35 U.S.C. § 283 is an end around the teachings of Baker. The risk is not of deciding a political question per se, but rather in basing an equitable decision on a judicial interpretation of an undecided political question. If the Court finds no such risk, the Federal Circuit's evaluation of the evidence considered the district court in this case is drawn into question. Clarification is thus believed to be necessary and is respectfully requested.

CONCLUSION

Our patent laws provide for the imposition of an injunction based on principles of equity determined by the courts. The evidence to be weighed and balanced in this decision rests at the discretion of our district judges. However, the extent to which such decisions may be based on unsettled political evidence is unclear in view our legal precedent. In reconsidering it precedence on injunctive relief in patent cases, the Court is asked to provide an explanation as to whether proposed or draft legislation is permissible evidence in this context, or whether it trespasses into political question territory.

Respectfully submitted,

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Supreme Court of the United States

EBAY AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF BIOTECHNOLOGY INDUSTRY ORGANIZATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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STATEMENT OF INTEREST

The Biotechnology Industry Organization ("BIO") is a trade association representing more than eleven hundred member-companies, academic institutions and biotechnology centers.[1] Its members range from the largest Fortune 500 companies to the smallest start-ups. BIO members expand the boundaries of science on a daily basis. They are involved in the research and development of healthcare, agricultural and environmental products. In fiscal year 2003 alone, the biotech sector filed over 40,000 new U.S. patent applications. The promise of exclusionary rights in validly patented subject matter provides the investment incentive for the research and development of innovative products used to improve the quality of millions of lives worldwide. BIO members, therefore, have great interest in this case. Increased uncertainty about the availability of exclusive rights in validly patented subject matter will negatively impact the amount of research and development resources available to member-companies and, most importantly, negatively impact public health and welfare.

SUMMARY OF ARGUMENT

The last century has seen unprecedented improvements in public health, much of which has resulted from technological advances in the field of medicine. The continued improvement of public health, however, depends on the ongoing development of new and more effective treatments. The United States Congress has repeatedly recognized the critical need for robust medical research. Accordingly, and con-

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[1] Pursuant to Supreme Court Rule 37.3(a), all parties have filed with the Court general written consents. Pursuant to Rule 37.6, *amicus curiae* states that no person or entity other than BIO or its members has made any monetary contribution to the preparation or submission of this brief. Further, no counsel for Petitioner or Respondent authored this brief in whole or in part.

sistent with the Patent Clause of the United States Constitution, art. I, § 8, cl. 8, Congress has enacted and refined a national policy that creates incentives for investment in this area—specifically, an intellectual property regime to reward innovators by granting a general right to exclude in exchange for disclosure of new and useful ideas.

New inventions and discoveries drive the biotechnology industry. Millions of people worldwide benefit daily from biotechnology-derived medicines and products. The right to *exclude* others from practicing a validly patented invention provides the investment incentive that is essential for high-risk, high-cost biotechnology research and development. Increased unpredictability with respect to the availability of exclusive rights will greatly diminish the value of patent rights, weaken the hand of patent owners in negotiations to determine the value of a patent, shift such value determinations to the courts, reduce inventors' desire to promptly disclose inventions to the public, and discourage the investment required to research and discover innovative technologies.

This Court in its prior opinions and the Federal Circuit in the case at bar have correctly determined that Congress guaranteed patent owners an exclusive right to their patented inventions. This consistent statutory interpretation has promoted the progress of the useful arts, including the biotechnology arts, far better than any other system in the world by providing a strong incentive to invent, disseminate information, and discover alternatives and improvements to patented inventions. It has also provided the necessary certainty for parties to determine the value of exclusive property rights without prolonged litigation that simply is not affordable by most biotechnology companies. The success of the U.S. patent system and the biotechnology industry derives from the careful balance Congress has established in the patent laws. Congress has not disturbed the patentee's exclusive right in more than two centuries. This Court should not do so now.

ARGUMENT

I. THE RIGHT TO INJUNCTIVE RELIEF IS VITAL IN ENSURING INNOVATION IN THE BIOTECHNOLOGY INDUSTRY

A. The Risks of the Biotechnology Industry Require a Patent System that Adequately Protects the Investment Necessary to Bring a Product to Market

1. Advances in medicine do not happen by themselves. They require the ingenuity of scientists, the perseverance of companies working in the medical field, and huge investment by the private sector and others. Members of BIO and others working in the biotech sector have made significant contributions to previously unimaginable research discoveries and medical advances, including medicines to treat diseases such as heart disease, cancer, AIDS, stroke, septic shock, diabetes, anemia, cystic fibrosis, multiple sclerosis, lupus, kidney disease and liver disease. Although millions of lives already have been saved and improved, the biotechnology revolution is in its infancy. Literally every day, biotechnology companies invent and discover new tests, new drugs, new cures, or new products.

Biotechnology companies must rely on investments (both from private investors and from inside the company) to fund development of risky and expensive new products. Biotechnology is still an emerging field, despite remarkable breakthroughs. Its further growth depends entirely on a commitment to invest in research and development. *See NIH: Moving Research from the Bench to the Bedside: Hearings Before the Subcomm. on Health of the House Comm. on Energy and Commerce*, 108th Cong., 1st Sess. 47 (2003) (testimony of Phylliss Gardner, M.D.) ("The biotechnology industry is the most research and development-intensive and capital-focused industry in the world."). Most biotechnology

companies are small ventures with little or no operating income to meet these costs. These small, emerging companies must turn to private investors for capital to fund their labor-intensive research. Currently, a full 98% of research and development investment in biotechnology comes from the private sector. *NIH: Moving Research from the Bench to the Bedside*, *supra*, at 49. The continued support of the private sector, however, is far from guaranteed, due to the highly speculative nature of biopharmaceutical product development.

The journey companies take from idea to marketable product is neither simple, safe, nor short. The investment that a company makes to develop even a single therapy is astonishing. The average cost of developing a therapy exceeds $800 million, and development can take up to fourteen years. *Tufts Center for the Study of Drug Development Pegs Cost of New Prescription Medicine at $802 Million*, News Release (Tufts Center for the Study of Drug Development), Nov. 30, 2001, available at http: //csdd.tufts.edu/NewsEvents/RecentNews.asp?newsid=6. The chances that a biopharmaceutical product will achieve FDA approval are approximately one in 5,000. *See* Tommy G. Thompson, Remarks at the Milken Institute's Global Conference (Apr. 26, 2004), available at www.hhs.gov/news/speech/2004/040426.html. Of the products that are approved as therapies for patients, a mere one-third cover their cost of development, much less turn a significant profit. John V. Duca & Mine K. Yucel, *An Overview of Science and Cents: Exploring the Economics of Biotechnology*, Federal Reserve Bank of Dallas Economic and Financial Policy Review (2002). In 2004, the industry suffered a net loss of more than $5.3 billion. Jim Wasserman, *Cancer Drugs Fuel Biotech Expansion*, Sacramento Bee, June 15, 2005 at D1; *see also* Ross Kerber, *Spread The Wealth Biotech Group Says States Need To Fund All Areas, Not Just Stem Cells*, Boston Globe, Jan. 15, 2005 at F1. ("[B]iotechnology's complicated drugs can take a decade or

longer to reach the market, leading to billions of dollars of annual losses for the industry.").

The majority of biotechnology companies are small, emerging companies with few employees, no therapies on the market, and no operating income. They must find investors willing to risk hundreds of millions of dollars on a very slim chance of the therapy reaching market and turning a profit. The company must not only convince investors that its long-shot invention will pay off, but that investing in the company is a better investment than countless, less risky, alternatives. And larger BIO member companies make their own investment in R&D. In effect, they are "investors" who must be willing to take risks and therefore also need certainty.

2. The primary asset of biotechnology companies is intellectual property, and specifically patents. The *sole* right granted by the patent—the right to *exclude* others from practicing a validly patented invention for a limited time—provides the incentive for BIO members' high-risk, high-cost research and development aimed at high rewards in promoting improved health, longevity, and well-being. Without the ability to enjoin infringers as the general rule, the right to exclude would be meaningless and many, if not most, of BIO's members would be unable to attract the capital necessary to fund research and development of new medicines.

Three examples from BIO members demonstrate the importance of investment in their product candidates to the health and welfare of the public. Robert Chess, Executive Chairman of Nektar Therapeutics, recently testified about his company's reliance on patents to attract investment capital for developing the world's first inhaled insulin for diabetic patients. He explained that his company is not profitable despite being in existence since 1991 and raising $1.2 billion through seventeen rounds of financing. The issuance of a single U.S. patent covering a form of inhaled insulin made it possible to attract the investment required for critical research

and development. In 2006 his company and its partner received FDA approval for their inhaled insulin product, the first insulin not administered to patients by injection. *See Patent Reform Act of 2005: Hearings on an Amendment in the Nature of a Substitute to H.R. 2795 Before the Subcomm. on the Courts, Internet, and Intellectual Property of the House Comm. on Judiciary*, 109th Cong., 1st Sess. (2005) (testimony of Robert Chess).

Another small biotechnology company, AlphaVax, has patented a technology that has the potential to deliver millions of doses of seasonal flu vaccine, as well as a pandemic flu vaccine. This company does not anticipate any of its vaccines will be approved for use by patients until 2011, and, therefore, must attract investors willing to forego other investment alternatives and risk millions of dollars on the chance this therapy will ultimately reach the market and make a profit. AlphaVax and its investors must have confidence that their patents will provide a predictable right to exclude others who did not make these discoveries or undertake comparable risk.

A third BIO member, Guilford Pharmaceuticals (now MGI Pharma), licensed patent rights to enable critical private investment that ultimately led to regulatory approval of a product to treat malignant brain tumors that extends the expected average life span of treated patients by almost 20%. Nevertheless, prior to its purchase, Guilford had not become profitable, even though its product had been on the market for several years.

These stories are commonplace among BIO members. Biotechnology companies and their investors rely on patent protection to provide the company its value. And without a general right to injunctive relief to enforce the right to exclude, these and other companies might never have been able to receive the investment needed to fund their ideas.

B. The Patent System Represents a Careful Balance Between Providing Incentives for Investment and Protecting the Public Interest

1. The Patent Act is clear: A patent grants the patentee "the right to exclude others from making, using, offering for sale, or selling the invention . . ." 35 U.S.C. § 154; and provides that the patentee "may . . . grant and convey an exclusive right" under the patent. 35 U.S.C. § 261. Furthermore, under the Act "no patent owner . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . refused to license or use any rights to the patent . . ." 35 U.S.C. § 271(d)(4). The statutory right to exclude, the sole right granted by a patent, cannot exist without the right to injunctive relief.

Yet in order to obtain this right and receive a patent, the prospective inventor must pass a gauntlet of hurdles. The *exclusive right* to injunctive relief arises only after a court has found a patent is valid. Both the Patent and Trademark Office ("PTO") and then a court upon review, must find that the patent is limited to subject matter found to be entirely (1) novel, (2) useful, and (3) non-obvious under stringent criteria Congress has placed into the patent laws. 35 U.S.C. §§ 101-103 (2002). A patent is subject to challenge for any of these reasons. Defendants accused of patent infringement often introduce reams of evidence at trial trying to invalidate a patent on these grounds. Thus, as was the case here, a patentee must withstand extensive challenges to his or her patent prior to seeking a *permanent* injunction.

In addition to the requirements above, Congress has imposed an additional barrier before a patent is issued. The patented subject matter must be sufficiently definite and have a completeness and exactness such that the patented invention can be put into practice. 35 U.S.C. § 112. *See also, e.g., In re Zletz*, 893 F.2d 319, 322 (Fed. Cir. 1989). The bargain between the inventor and the government requires definite-

ness because the driving force of the patent system is *disclosure*. *See, e.g., Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480-81 (1974). In exchange for disclosing to others a new invention, the government grants the right to exclude others from practicing the invention for a limited time period, *i.e.*, typically 20 years from the patent application's filing date.

2. Therefore, only when the inventor has adequately disclosed to the public something entirely novel, useful, and non-obvious—and set out with definiteness the "metes and bounds" of such an invention—does a court address the issue of whether an ongoing infringement of such a patented invention should be halted via an injunction.

For validly patented subject matter, an injunction allows the patent holder to prevent a person from using the invention — an invention that did not exist before the inventor created it. Stopping such infringement of valid patents serves as the economic incentive to create the new and non-obvious subject matter that, in turn, promotes technological advances through public disclosure via the patent. Changing the availability of exclusionary rights would diminish this strong economic incentive. The inability to enjoin the infringement of a valid patent would produce an unavoidable diminishment of the economic power—and economic value—of rights in valid patents.

Further, for validly patented subject matter, an injunction takes nothing from the public that existed before the invention was made and nothing that was merely an obvious alteration of known technology. A general rule enjoining infringement of valid patents promotes the public interest. Stopping such infringement of valid patents serves as the economic incentive to create the new and non-obvious subject matter that, once publicly disclosed via the patent, permits that advance in technology to be further refined, extended and improved. *Cf. Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) ("[E]xclusive patent

rights are given in exchange for *disclosing* the invention to the public.") (emphasis added).

Diluting the general right to injunctive relief, in contrast, would diminish a patent's value. In negotiations among private parties, any increased uncertainty that infringement of a valid patent would be stopped by the courts would demonstrably weaken the hand of the patent owner. Investors in BIO member-companies would be less willing to invest in high-risk research and development and less investment could result in creating less new technology.

In addition, if the role of the courts changes from enjoining infringement of validly issued patents, absent exceptional circumstances, to deciding the terms on which courts will sanction the ongoing infringement of valid patents, the established system of patent licensing will change dramatically. Instead of private parties negotiating to determine the value of validly patented inventions, the courts will find themselves in the judicial licensing business—deciding the remuneration paid to the patent owner when the court sanctions ongoing infringement. Indeed, if an infringer can knowingly avoid an injunction, some potential licensees and partners might relish the prospect of—or at least the threat to a patent owner of—having a jury set the terms for a judicial license. Given the increased uncertainty of being able to enforce their exclusive rights, many biotech companies, particularly those which are resource-constrained, would have difficulty pursuing their uncertain rights through costly litigation. Thus, they likely would be forced to settle for much less than necessary to recoup their investment, to continue research and to discover innovative technologies.

Indeed, to reduce the risk of having their inventions copied, the expense of prolonged litigation, and the threat of judicial licenses, some inventors may choose not to participate in the patent system at all. Instead, they could withhold filing of a patent application, thereby maintaining their inventions as

trade secrets. Alternatively, they could delay the filing of patent applications and the public disclosure of their inventions until after negotiating and securing licensing terms under conditions of strict confidentiality. Either of these approaches would deny other scientists timely and valuable scientific information, normally available through published patent applications. Moreover, any withholding of scientific information by inventors would negatively impact the discovery of alternatives and improvements to published inventions. And it would completely defeat the patent system's fundamental purpose of bringing new ideas into the public domain. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989) (stating that "the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure").

Biotechnology innovation depends on and has prospered because of the long-held consensus that the essence of a patent is the right to exclude. This Court should not now change these settled expectations.

II. THE PATENT HOLDERS HAVE LONG HAD THE GENERAL RIGHT TO OBTAIN AN INJUNCTION FOR PATENT INFRINGEMENT

A. The Historical Basis for Injunctive Relief Confirms its General Applicability in Patent Cases

35 U.S.C. § 283 provides: "The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." Injunctive relief is clearly equitable and thus will not be granted in *all* cases. However, petitioners' heavy reliance on the language of § 283 is misplaced. The history of this injunctive relief provision confirms the general principle that after a valid patent has been adjudged infringed, continuing or future infringement generally should

result in the grant of injunctive relief. In fact, its enactment was to make certain all federal courts had the power to grant such relief in all patent cases.

When the first predecessor to Section 283 was enacted on February 15, 1819, it stated:

> That the circuit courts of the United States *shall have original cognizance, as well in equity as at law*, of all actions, suits, controversies, and cases, arising under any law of the United States, granting or confirming to authors or inventors the exclusive right to their respective writings, inventions, and discoveries: and upon any bill in equity, filed by any party aggrieved in any such cases, *shall have authority to grant injunctions*, according to the course and principles of courts of equity, to prevent the violation of the rights of any authors or inventors, secured to them by any laws of the United States, on such terms and conditions as the said courts may deem fit and reasonable . . . .

3 Stat. 481, Ch. 19 (1819) (emphasis added). Thus, its enactment was not intended to limit injunctive relief, but rather was intended to authorize the circuit courts to act both in equity and at law.

The statute authorizing the court to act in equity for patent cases was revised in 1836 (5 Stat. 117, Ch. 357, § 17) and again in 1870 (16 Stat. 198, Ch. 230 § 55). Then, on March 3, 1897, the language was amended and simplified to read:

> The several courts vested with jurisdiction of cases arising under the patent laws *shall have power to grant injunctions* according to the course and principle of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable . . . .

R.S. 4921, 29 Stat. 694, Ch. 391, § 6 (1897) (emphasis added).

The 1897 language was twice-reenacted without change until 1952. See R.S. 4921, 42 Stat. 392, Ch. 58, § 8 (1922); and 60 Stat. 778, Ch. 726, § 1 (1946). The 1952 statute read:

> The several courts having jurisdiction of cases arising under this title *may grant injunctions* in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

66 Stat. 792, Ch. 29, § 283 (1952) (emphasis added).

In the comments to the final bill regarding Section 283, the editors note that "this section is the same as the provision which opens R.S. § 4921 with minor changes in language." H.R. Rep. No. 1923, 82d Cong., 2d Sess. 29 (1952).

Since well before the Constitution, the general rule was that injunctions issued once the patent was adjudged valid and infringed. *See, e.g., Livingston v. Van Ingen*, 9 Johns. Cas. 507, 585 (1812). ("Injunctions are always granted [sic] to secure the enjoyment of statute privileges . . . . This is the uniform course of the precedents. I believe there is no case to the contrary; and the decisions in the English Chancery, on this point, were the same before as since the American Revolution.").

This general injunctive right did not change with the enactment of the 1819 Patent Act. As Professor Robinson explained in his classic 1890 treatise, *The Law of Patents*: "A perpetual injunction issues, as a matter of course, at the conclusion of a suit in equity, whenever the plaintiff has sustained the allegations of his bill, provided the patent has not then expired." 3 William C. Robinson, *Treatise on the Law of Patents for Inventions*, § 1220, at 657 (1890).[2] *See*

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[2] Permanent injunctions granted after a patent had been determined to be valid and infringed are distinct from preliminary injunctions: "A preliminary injunction is not, like a perpetual injunction, a matter of course, nor can its issue be governed by any formulated and established rules." 3

also id. § 1088, at 400 (citation omitted). ("An adequate remedy at law does not exist in any case where future infringements are to be prevented . . . . Future infringements can be prevented only by an injunction issuing out of chancery, and to this relief the plaintiff is entitled whenever he has reason to apprehend a violation of his rights by the defendant.").

Professor Robinson identified five different areas where an injunction was not appropriate: Whenever (1) the sole relief being sought is compensation for past infringement; (2) the patentee is seeking a license fee from the infringer and the infringing acts raise an implied acceptance of the patentee's offer; (3) the infringement has ceased; (4) the patent has expired; or (5) the infringement is a breach of contract, by whose provisions the compensation of the plaintiff for the injury is determined. *See id.* § 1087, at 398-99. None of these apply here, although they explain why an injunction should not be automatic.

Exceptional circumstances also have properly led courts to deny or temporarily stay a permanent injunction when an important public need for the invention exists. *See Johns Hopkins Univ. v. CellPro*, 978 F. Supp. 184, 189 (D. Del. 1997); *Schneider (Europe) AG v. SciMed Life Sys. Inc.*, 852 F. Supp. 813, 850-51, 861-62 (D. Minn. 1994), *aff'd*, 60 F.3d 839 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 990 (1995) (granting permanent injunction with a one-year transition "to allow an efficient and non-disruptive changeover for those institutions and physicians who now employ the [infringer's product] exclusively"); *Ethicon Endo-Surgery v. U.S. Surgical Corp.*, 855 F. Supp. 1500, 1517 (S.D. Ohio 1994) (noting that to suddenly withdraw the infringing devices with which a large number of surgeons are "unquestionably" familiar and have been trained to use "could have a serious

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William C. Robinson, *Treatise on the Law of Patent for Inventions*, § 1170, at 557 (1890).

disruptive effect on surgical practice"); *Shiley, Inc. v. Bentley Labs., Inc.*, 601 F. Supp. 964, 971 (C.D. Cal. 1985), *aff'd*, 794 F.2d 1561 (Fed. Cir. 1986) (granting an injunction against the sale of an infringing blood oxygenator, but delaying the injunction for six months to minimize negative impacts on hospitals and surgery candidates).

B. This Court and the Federal Circuit Have Correctly and Consistently Protected a Patentee's Exclusive Rights Through Injunctive Relief, Absent Exceptional Circumstances

This Court and the Federal Circuit have correctly and consistently protected a patentee's exclusive rights through injunctive relief, absent exceptional circumstances. This Court repeatedly has determined that Congress acted within its authority when it chose to promote the progress of science and the useful arts by expressly granting patentees an exclusive property right in their inventions. More than a century ago, this Court stated:

> The securing to inventors of an *exclusive* right to their inventions, was deemed of so much importance, as a means of promoting the progress of science and the useful arts, that the constitution has expressly delegated to Congress the power to secure such rights to them for a limited period. The inventor has, during this period, a *property* in his inventions; a property which is often of very great value, *and of which the law intended to give him the absolute enjoyment and possession.*

Ex parte Wood, 22 U.S. (9 Wheat.) 603, 608 (1824) (Story, J.) (emphasis added). The "exclusive right" would not provide "absolute enjoyment" if it were forfeitable based on any number of unpredictable circumstances. *See also Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 36 (1923) ("It is the fact that the patentee has invented or discovered something useful and thus has the common law right to make, use and vend it himself which induces the

Government to clothe him with power to exclude everyone else from making, using, or vending it.").

More recent decisions from this Court confirm this long-standing principle of a patentee's right to exclude: "By the very terms of the statute the grant is nothing more than a means of preventing others, except under license from the patentee, from appropriating his invention." *Special Equip. Co. v. Coe*, 324 U.S. 370, 378 (1945) (interpreting the predecessor of 35 U.S.C. § 154, U.S. Rev. Stat. § 4884). *See also Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) ("The heart of his legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without consent."); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("Petitioners' argument runs contrary to the long-settled view that the essence of a patent grant is the right to exclude others from profiting by the patented invention.").

C. Exclusive Patent Rights Are Enforceable Via the General Right to Injunctive Relief Even When A Valid Patent Covers A Single Component of A Multi-Component Product

Exclusive patent rights are enforceable via injunction even when a valid patent covers a single component of a multi-component product. Although the biotechnology industry typically relies on one or only a few patents to adequately protect an entire marketed product, BIO's members regularly make inventions that are incorporated into and used in conjunction with more complex products. There is no need to alter the longstanding general right to injunctive relief because sometimes one valid and infringed patent protects only a single component of a multi-component product. Testimony during a recent patent reform hearing referred to this situation as "a case of someone wanting to enjoin the sale of pick-up trucks because they contain a built in beer cooler that

is claimed to be infringing." *Patent Reform Act of 2005: Hearing on an Amendment in the Nature of a Substitute to H. R. 2795 Before the Subcomm. on the Courts, Internet, and Intellectual Property of the House Comm. on the Judiciary*, 109th Cong., 1st Sess. (2005) (testimony of David Simon).

Such a situation does not justify a change in this Court's precedent. *First*, the issuance of a permanent injunction is based on a final determination that a presumptively valid patent—meeting all statutory requirements—is infringed. *Second*, seldom is the issuance of the patent a surprise. As a result of the American Inventors Protection Act of 1999, Public Law 106-113, 113 Stat. 1501, substantially all patent applications publish 18 months after filing. 35 U.S.C. § 122 (b)(1)(A); 37 C.F.R. § 1.211 (2005). Prudent companies regularly monitor and analyze the patent literature in areas where they research and develop products, and continue to assess their risk during the several years usually required to complete patent litigation. *Third*, an injunction can and should be tailored to prevent the infringement of the "claimed invention," for example, the cooler in the case of Mr. Simon's hypothetical. *Fourth*, the infringer has choices—remove the cooler from the truck, design a cooler that doesn't infringe the valid patent, wait for the patent to expire, or seek a license from the patent owner.

In the vast majority of cases in which a party is found guilty of infringement, permanent injunctions are not issued because the parties negotiate a settlement or the accused infringer redesigns its product to avoid infringement. If a product cannot be redesigned to avoid a patent, it is likely that the patent is protecting an important invention and an injunction is warranted, absent exceptional circumstances.

III. BIOTECH INNOVATION WOULD BE FRUSTRATED IF THIS COURT CREATED AN EXCEPTION TO THE RIGHT TO INJUNCTIVE RELIEF WHEN THE PATENT HOLDER DOES NOT USE THE INVENTION

BIO members, particularly small companies and universities, make valuable, patentable discoveries but frequently do not practice or develop ("use") them for a variety of reasons. They may lack scientific expertise, financing, or development and manufacturing capacity. Likewise, they simply may be unable to currently license other essential know-how. And licensing immediately may not make economic sense, or they may try and be unable to do so. In some cases, it may take years before commercialization is feasible, or even possible. These patent owners should not be deprived of their exclusive rights, as they would be if this Court created a new basis to avoid an injunction whenever a patent owner does not use its patented invention.

Such a change in the law would run counter to this Court's jurisprudence and to Congress's command.[3] Moreover, it begs the question of what "use" means. Licensing the patent so that others might use it benefits the public, and is a "use." *Continental Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908).

Regardless of what "use" means, however, "[t]his Court has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent." *Special Equip.* 324 U.S. at 78-79. This Court's

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[3] Of course, under present jurisprudence, if lack of use negatively impacts the public interest, as it could in the case of a life-saving drug, sufficiently to outweigh the public interest in a strong patent system, then that interest should be considered in deciding whether to issue an injunction.

decision in *Continental Paper Bag* was not an outlier. Rather, it relied on traditional principles of patent law:

> It is manifest as is said in Walker on Patents, § 106, that Congress has not 'overlooked the subject of non-use of patented inventions' . . . . In some foreign countries the right granted to an inventor is affected by non-use. This policy, we must assume, Congress has not been ignorant of nor of its effects. It has, nevertheless, selected another policy; it has continued that policy through many years. We may assume that experience has demonstrated its wisdom and beneficial effect upon the arts and sciences.

Id. at 429-30. As explained by this Court, use of patented inventions is not required:

> A suppression can endure but for the life of the patent, and the disclosure he has made will enable all to enjoy the fruit of his genius. His title is exclusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it.

Bement v. National Harrow Co., 186 U.S. 70, 90 (1902) (*quoting Heaton-Peninsular Co. v. Eureka Specialty Co.*, 77 F. 288, 294-95 (6th Cir. 1896)).

A rule distinguishing patents by whether the patent holder "uses" the invention is directly contrary to Congress's command. Not only would such a rule diminish the value of the patent, it will inexorably result in court-imposed compulsory licensing—something acknowledged forthrightly by the one case relied upon so heavily by petitioners and their *amici*, *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974). Yet Congress consistently has rejected all attempts to create compulsory licensing, except in certain

limited situations necessary to the public welfare.[4] These exceptions show not only that Congress does not want compulsory licensing as a general rule, but that not having an injunctive right is appropriate only where the public interest is involved. Indeed, this Court stated over 60 years ago that "Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing forfeiture or providing for compulsory licensing if the patent is not used within a specified time, but has not done so." *Special Equip.* 324 U.S. at 379 (footnotes omitted). The same is equally true today.[5] Likewise, Congress has consistently re-

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[4] Congress has, for example: (1) limited a patentee's remedies against the government to reasonable compensation (28 U.S.C. § 1498); (2) exempted from infringement practicing an invention "solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs" (35 U.S.C. § 271(e)(1)); (3) provided the government authority to grant licenses to government-funded inventions, under certain circumstances (35 U.S.C. § 204); (4) mandated a compulsory license if necessary to ensure an adequate supply of food (7 U.S.C. § 2404); (5) required licensing under reasonable terms of technology to prevent and control air pollution (42 U.S.C. §§ 7401-7626); (6) provided licensing of certain patented inventions related to nuclear material and atomic energy (42 U.S.C. § 2183(c)); (7) mandated licensing of patented inventions as necessary to comply with the Clean Air Act (42 U.S.C. § 7608); and (8) limited the enforceability of certain medical procedures patents (35 U.S.C. § 287).

[5] Granting compulsory licenses, unless narrowly and carefully tailored, may well "run afoul" of the United States' TRIPS obligations. *See*, Harold C. Wegner, *Injunctive Relief: A Charming Betsy Boomerang*, 1st Annual Northwestern Journal of Technology and Intellectual Property Symposium: IP Litigation in the 21st Century, Northwestern University (Feb. 2006), available at http://www.foley.com/files/ tbl_s31Publications/ FileUpload137/3231/Injunctive%20Relief%20%20A%20Charming%20B etsy%20Boomerang.pdf. The practice would certainly frustrate the United States' efforts to halt the grant of such licenses in other countries. At the very least, this Court should consider what would be required in order to sufficiently address these and other international issues. *See Wegner, supra.*

jected any attempt to distinguish among patent owners based upon whether the claimed invention is being "worked" or "used."[6]

In addition, Congress has amended the patent laws on numerous occasions without altering the right to exclude infringement of valid patents.[7] And Congress will certainly continue to consider proposals to amend the patent laws to promote the progress of the useful arts. In fact, the Federal Trade Commission (FTC) and the National Academy of Sciences (NAS) each recently conducted multi-year studies of the U.S. patent system resulting in detailed reports and extensive recommendations on how to improve the patent system.[8] These two reports spurred the 109th Congress to

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[6] *See Hartford-Empire Co. v. United States*, 323 U.S. 386, 416 (1943) (citing rejected attempts by Congress). More recent proposals to limit the right to exclude include: *the Hart Bill of 1973*, S. Rep. No. 1321, 93d Cong., 2d Sess. (1973); *The Affordable Prescription Drugs Act*, H.R. 2927, 106th Cong., 1st Sess. (1999); and *The Affordable Prescription Drugs and Medical Inventions Act*, H.R. 1708, 107th Cong., 1st Sess. (2001) (proposal to allow compulsory licensing under certain conditions related to health care costs).

[7] For example, in 1999 Congress amended the patent law such that nearly 95% of all patent applications now publish eighteen months from filing to allow the public to benefit from the early disclosure of the invention and to prevent unfair surprise to competitors from late-issuing patents. A recent change in term from seventeen years from patent issuance to twenty years from the filing of the application has also harmonized U.S. patent practice with the rest of the world and has prevented patentee delay in the patent office from extending patent exclusivity. Congress has also provided a "first-inventor defense" to certain infringement actions in the area of business methods patents. 35 U.S.C. § 273(b)(1).

[8] The FTC conducted a multi-year study of the U.S. patent system and issued a report in October 2003. Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003). While the FTC determined that the patent system works well, ten recommendations were made, in large part, to improve the

actively consider a number of patent reform proposals.[9] Although neither report recommended changing the patentee's right to injunctive relief, Congress nevertheless considered and rejected legislation urged by select industry groups that would have required courts to weigh any and every fact in deciding whether to enjoin an adjudicated infringer—exactly what Petitioners are asking this Court to

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balance between patent owner's rights to exclusivity in valid patents and the public's right not to be burdened by invalid patents.

The National Academies of Sciences' Committee on Intellectual Property Rights in the Knowledge-Based Economy also commissioned a multi-year study of the patent system. The report from this study was published in April 2004. Nat'l Acad. of Sciences, *A Patent System for the 21st Century* (Stephen A. Merrill et al. eds., 2004). The NAS report found that the U.S. patent system played an important role in stimulating technical innovation by providing legal protection to inventions and by disseminating useful technical information. It concluded with seven principal recommendations to improve the U.S. patent system, several of which overlap with those made by the FTC.

[9] *Patent Quality Improvement: Post-Grant Opposition: Hearing Before the Subcomm. on Courts, the Internet and the Intellectual Property of the House Comm. on the Judiciary*, 108th Cong., 2d Sess. (2004); *Perspectives on Patents: The Patent System Today and Tomorrow: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary*, 109th Cong., 2d Sess. (2005); *Patent Act of 2005: Hearing on H. R. 2795 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary*, 109th Cong., 2d. Sess. 109-24 (2005); *Patent Reform Act of 2005: Hearing on an Amendment in the Nature of a Substitute to H.R. 2795 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary*, 109th Cong., 1st Sess. (2005); *Patent Law Reform: Injunctions and Damages: Hearing Before the Senate Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary*, 109th, 2d Sess. (2005); *Perspectives on Patent Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. of the Judiciary*, 109th Cong., 2d Sess. 109-182 (2005).

do without legislation.[10] Congress, not this Court, is the proper branch to address any policy arguments about altering the long-standing right to exclude. This Court should reject petitioners' attempt to limit the injunctive remedy by court decision when Congress repeatedly has rejected these attempts to do so.

CONCLUSION

For the foregoing reasons, the judgment of the Federal Circuit should be affirmed.

Respectfully submitted.

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[10] *Patent Act of 2005: Hearing on H. R. 2795 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary*, 109th Cong., 2d Sess. 109-24 (2005) (legislation remains in subcommittee without the injunction provision).

No. 05-130

In the Supreme Court of the United States

EBAY, INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF BUSINESS SOFTWARE ALLIANCE, SOFTWARE AND INFORMATION INDUSTRY ASSOCIATION, INFORMATION TECHNOLOGY INDUSTRY COUNCIL, AND INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA AS AMICI CURIAE IN SUPPORT OF PETITIONERS

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether the Court should reconsider its precedents, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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INTEREST OF THE AMICI CURIAE[1]

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies, including Adobe, Apple, Autodesk, Avid, Bentley Systems, Borland, Cadence Design Systems, Cisco Systems, CNC Software/Mastercam, Dell, Entrust, HP, IBM, Intel, Internet Security Systems, Microsoft, PTC, RSA Security, SAP, SolidWorks, Sybase, Symantec, Synopsys, The MathWorks, and UGS. BSA members are among the largest owners of patents, holding a total of more than 30,000 patents. They include three of the four largest U.S. patent recipients for 2005 according to data released by the Patent and Trademark Office. See Press Release, USPTO, USPTO Releases Annual List of Top 10 Organizations Receiving Most U.S. Patents, *at* http://tinyurl.com/c69e2 (Jan. 10, 2006). Micron, a member of amicus Information and Technology Industry Council, is the fourth large U.S. patent recipient.

The Software & Information Industry Association (SIIA) is the leading and largest U.S. trade association committed to protecting the interests of the software and digital content industries. SIIA represents over 700 companies that develop and market software and electronic content for business, education, consumers, and the Internet. SIIA's members include software companies, e-businesses, and information service companies; large, established companies and small start-ups.

The Information Technology Industry Council (ITI) represents the leading U.S. providers of information technology products and services. ITI members include Accenture,

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[1] Pursuant to Rule 37.3 of the Rules of this Court, the parties have consented to the filing of this brief, and the parties' letters of consent have been lodged with the Clerk. This brief was not written in whole or in part by counsel for a party, and no person or entity other than the amici curiae has made a monetary contribution to the preparation and submission of this brief.

Agilent Technologies, AMD, Applied Materials, Canon U.S.A., Corning, Eastman Kodak, eBay, EMC, Honeywell, Lexmark, Micron, National Semiconductor, NCR, Oracle, Panasonic, QUALCOMM, Sony Electronics, Sun Microsystems, Symbol Technologies, Tektronix, Time Warner, Unisys, and VeriSign.

The Information Technology Association of America (ITAA) provides global public policy, business networking, and national leadership to promote the continued rapid growth of the IT industry. ITAA consists of over 380 corporate members throughout the U.S. ITAA members range from the smallest IT start-ups to industry leaders in the Internet, software, IT services, ASP, digital content, systems integration, telecommunications, and enterprise solution fields. ITAA is secretariat of the World Information Technology and Services Alliance, consisting of 65 IT trade associations around the world.

Amici's members recognize that patents can promote technological innovation and are indispensable to the future of their own businesses, and Amici's members are frequently compelled to protect their own patent rights through litigation. Accordingly, Amici strongly support the effective protection of patent rights.

Increasingly, however, Amici's members are also among the principal targets of patent infringement lawsuits, many of which are initiated by "patent litigation firms" – *i.e.*, entities that are formed and acquire patents for the sole purpose of asserting infringement claims against other companies. Amici accordingly have a substantial interest in promoting the development of legal rules that are fair to both patentees and alleged infringers. Because of their members' unique perspective, Amici are particularly well-situated to explain the practical impact of the Federal Circuit's mandatory injunction standard on an industry that is critically important to

the Nation's economy,[2] and to discuss how the traditional equitable principles governing injunctive relief apply in the patent infringement context.

SUMMARY OF ARGUMENT

This case brings before the Court the standard that district courts should apply in determining whether to grant injunctive relief in patent infringement cases. The Federal Circuit held that "a permanent injunction will issue once infringement and invalidity have been adjudged" except in "'rare instances'" where such relief would "'frustrate[] an important public need'" such as protecting public health. Pet. App. 25a (citations omitted).

The Federal Circuit's automatic injunction standard is contrary to the plain language of the governing statute, promotes abusive litigation and deters innovation. This Court should make clear that in patent cases – as in virtually every other context involving injunctive relief – district courts should apply the traditional equitable factors to ascertain whether, based on all of the relevant facts and circumstances of the particular case, injunctive relief is an appropriate remedy. The Court also should take this opportunity to provide guidance to the lower courts as to how the traditional equitable factors apply in the patent infringement context.

The impact of the Federal Circuit's rigid standard on technology companies – just one of the many different fac-

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[2] In 2004, the information technology industry directly contributed $445 billion to the U.S. GDP. U.S. Dep't of Commerce, Bureau Econ. Analysis, *at* http://tinyurl.com/b72ym. More important, though, are the industry's *indirect* contributions to the economy: Chairman Greenspan has observed that "information technology" and "information innovation lie[] at the root of productivity and economic growth" in the economy as a whole. Remarks Before the Economic Club of New York, NY: Technology and the Economy (Jan. 13, 2000), *available at* http://tinyurl.com/a23za.

tual settings in which the Patent Act applies – demonstrates why equitable discretion is essential. Technology products typically consist of hundreds or thousands of patented components. It therefore is impossible for technology companies to investigate all of the patents, and pending patent applications, that may be relevant to a new invention, notwithstanding their best efforts to do so. When, as frequently occurs, the claim of infringement is not made until after the new product is released or the industry standard has been adopted, designing around the claim is no longer a realistic option. Because an injunction will issue automatically upon a finding of infringement – even if the claim relates to only an insignificant part of the product – the target of the claim is forced to pay an extortionate settlement in order to preserve its business.

These harmful effects are exacerbated by a new species of patent plaintiff – patent litigation firms, which buy patents solely to institute infringement actions. These "professional plaintiffs" often target agreed-upon industry standards, adding that standard to a pending patent claim and then asserting infringement against any entity employing the industry standard. Their bargaining leverage has been enhanced by creative use of the Patent Act's generous venue provision, which has made the Eastern District of Texas a new hub for patent litigation.

The Patent Act does not require these very significant adverse consequences. It expressly provides that district courts "*may* grant injunctions *in accordance with the principles of equity*." 35 U.S.C. § 283 (emphasis added). That is a clear congressional directive to apply the traditional equitable factors governing the availability of injunctive relief.

How those factors apply depends on the particular facts of each case. Thus, when the patentee practices its patent and competes with the infringing company, or grants an exclusive license to a third party that does so, irreparable injury will be easy to establish. If, on the other hand, the patentee is willing

to grant a nonexclusive license to anyone, it will have a hard time demonstrating that monetary damages are an inadequate remedy.

In assessing the balance of the hardships, the court must examine a variety of factors, such as whether the defendant made significant investments before it learned of the alleged infringement; whether the injunction would require the defendant to redesign its product in a way that would limit interoperability; the nature of the patentee's investment and when it asserted the particular claim before the PTO; and whether the injunction will serve simply to increase the patentee's negotiating leverage. With respect to the final factor – the public interest – the district court must examine not just the interest in patent enforcement, but also potential burdens on third parties, including the disruption of technology already in widespread use.

ARGUMENT

COURTS MUST APPLY THE TRADITIONAL EQUITABLE FACTORS IN DETERMINING WHETHER TO GRANT AN INJUNCTION IN A PATENT INFRINGEMENT ACTION.

Innovation processes and patenting practices vary widely among different industries. See Nat'l Research Council for the Nat'l Academies, A PATENT SYSTEM FOR THE 21ST CENTURY 37 (Stephen A. Merrill et al. eds., 2004); Wendy H. Schacht & John R. Thomas, Cong. Research Serv., PATENT REFORM: INNOVATION ISSUES 5 (July 15, 2005); Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1589-95 (2003). Many sectors, such as chemicals, pharmaceuticals, furniture, and hand tools, tend to follow the traditional patent paradigm of a consumer product protected by a handful of well-defined patents. See, *e.g.*, Fed. Trade Comm'n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, Ch. 3, at 5-6 (Oct. 2003) [hereinafter FTC REPORT]. How-

ever, in other industries, such as computer hardware and software, aviation, financial services, telecommunications, and biotechnology, a single consumer product or service typically incorporates inventions reflected in hundreds or even thousands of patents, some of which may be defined ambiguously. See FTC REPORT, Ch. 3, at 15-56; Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, *in* 1 INNOVATION POLICY AND THE ECONOMY 119, 125-26 (Adam B. Jaffe et al. eds., 2000).

This Court has long recognized that "the essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it." *Hecht Co.* v. *Bowles*, 321 U.S. 321, 329 (1944). The realities of patent infringement litigation – as well as fundamental legal principles – require courts to employ this equitable discretion in the patent context. Indeed, precisely *because* our unitary patent system applies the same legal rules to a multitude of very different industries and technologies, it is essential that the standard governing the availability of injunctive relief enable district courts to take into account the particular facts and equities of each case.

We first explain the reasons why application of the Federal Circuit's rule that injunctions should be issued in virtually every case impedes innovation and promotes abusive litigation in technology industries. Next, we demonstrate that this Court's precedents compel the conclusion that district courts must exercise discretion in determining whether to grant injunctions in patent cases. We conclude by discussing how courts should apply the traditional equitable factors in the patent infringement setting.

A. The Practical Realities Of Infringement Litigation Involving Technology-Related Patents Demonstrate The Importance Of Equitable Discretion In Granting Injunctions.

1. The Federal Circuit's Automatic Injunction Rule Deters Innovation And Promotes Abusive Litigation.

Technology products typically are made up of very large numbers of patented components. Thus, computers, cellular telephones, MP3 players, as well as airplanes, cars and communications networks often contain thousands of different physical components, each of which may be the subject of many patents. A single computer program may contain hundreds or thousands of patented components. Nat'l Research Council, *supra*, at 37.

One reason for this phenomenon is the extraordinary complexity of these products. Another is the incremental nature of innovation in technology industries. A new drug product usually constitutes a separate and distinct invention protected by a few patents relating solely to that substance. FTC REPORT, Ch. 3, at 5-6. A new version of a software program or a new computer, on the other hand, virtually always builds upon pre-existing technology – adding new features based on new inventions but incorporating prior technology as well. *Id.* at 50-51.

When a technology business is developing a new device or a new computer program, it often is extraordinarily difficult – notwithstanding the business's best efforts – to identify all of the existing patents, and pending patent applications, that may be relevant to each of the hundreds or even thousands of components that make up that new product. FTC REPORT, Ch. 2, at 28. In the computer hardware industry, hundreds of thousands of patents are spread among tens of thousands of patentees. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study*

of Patenting in the U.S. Semiconductor Industry, 1979–1995, 32 RAND J. ECON., No. 1, 101, 110 (2001).

With this myriad of often-overlapping patents, no technology business can review every potentially relevant patent before designing and commercializing a new product. As a result, the firm may invest substantial time and resources in a new product *before* becoming aware that an arguably patented technology is embedded somewhere within its design. This is especially true because the grant of a patent may lag the introduction of a product by many years, and may not be brought to the attention of the industry until many years after that. Shapiro, *supra*, at 126 ("In these industries, the danger that a manufacturer will step on a land mine is all too real.").

Moreover, patent infringement claims are easy to assert, but difficult to disprove. Especially in the technology context, the validity of a patent – as well as its legitimate boundaries – sometimes may be difficult to determine, which allows the assertion of extremely tenuous claims. See, *e.g.*, James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 16 (2004) ("[C]ourt errors are difficult to avoid in patent litigation, because claim interpretation is complex and it is difficult for fact-finders to assess evidence of infringement. Thus, a deserving defendant may face a significant risk of liability.").

If a hardware or software company becomes aware of the possibility of a patent infringement claim before it designs a new product, it has the choice of designing around the allegedly patented technology or obtaining a license to use it. At that point, the cost of a license would reflect the relative difficulty of designing around the technology as well as the strength of the potential infringement claim. Stated simply, a strong patent that is difficult to design around can command a relatively high licensing fee, while a weak one that is easy to design around cannot. Shapiro, *supra*, at 125-26. Of

course, in some circumstances a technology company may not as a practical matter be able to design around a patent claim – such as when the claim would prevent the company from making new products compatible with existing ones, or with an industry standard that permits interaction with the products of other manufacturers. See pages 12-15, *infra*.

The situation becomes dramatically different from a business perspective when, as is often the case, an infringement claim is asserted *after* the company has already initiated production or invested substantial time and resources in research and development. At that point, backtracking to design around the now-integrated technology will almost certainly involve substantial expense, waste, and delay. Shapiro, *supra*, at 125-26. Indeed, "redesigning a product after significant costs have been sunk is usually not economically viable." FTC Report, Ch. 3, at 40. As a result, there will be overwhelming pressure on the company to obtain a license of the patent that allegedly is being infringed.

The Federal Circuit's automatic injunction standard provides extraordinary, unfair leverage to the potential infringement plaintiff in this situation. When an injunction is always or virtually always available, the potential plaintiff can demand a licensing fee that reflects the technology company's sunk costs and the losses that an injunction would inflict, not just the ordinary market value of the license. Adam B. Jaffe & Josh Lerner, INNOVATION AND ITS DISCONTENTS 112 (2004). Because an injunction will issue automatically upon a finding of infringement, this extreme bargaining inequality exists even if the patented technology is only an insignificant part of the product as a whole and the technology company "could easily have invented around [the patent] at an earlier stage, had [it] merely been aware that such a patent * * * existed." Shapiro, *supra*, at 126.

Even if the arguments with respect to infringement – or with respect to the validity of the patent – are weak, the

downside risk to the technology company is so great that the company has little ability to withstand the potential plaintiff's demands. The threat of disruption of the technology company's business is so significant that the incentives for the company to reach an agreement are overwhelming. Wesley M. Cohen et al., *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)*, Nat'l Bur. Econ. Research Working Paper No. 7552, at 27 (Feb. 2000) (patents can be used effectively to threaten litigation "even if they are weak or untested" because "[t]hey need only confer the right to sue and thus impose the costs of litigation and possible injunctive relief").

Computer and software companies are aware of these risks, and it has become industry practice to try to mitigate them through reciprocal licenses of intellectual property that reduce the risk of catastrophic business interruptions caused by the threat of patent infringement claims. See Shapiro, *supra*, at 127-28; Cohen et al., *supra*, at 19. Such cross-licensing arrangements are extremely useful to manufacturers and research entities generally, and especially those in the computer and software industries, because of the incremental nature of innovation – in the absence of cross-licensing, "an early patent holder has a potential claim against subsequent innovators," and subsequent innovators will, therefore, "perform a sub-optimal level of R&D or, perhaps, not * * * invest in the innovation at all." James Bessen, *Holdup and Licensing of Cumulative Innovations with Private Information*, at 2 (2004), *available at* http://tinyurl.com/7o6cq. Rather than assert every potential infringement claim, firms in these industries often agree to cross-license their patents, recognizing that while they will be "early patent holder[s]" in some cases, they will inevitably be "subsequent innovators" in others. See, *e.g.*, Shapiro, *supra*, at 127-28.

Cross licensing is an imperfect solution, however, when injunctions are virtually automatic. It is simply impossible to

conclude comprehensive cross-licensing agreements when there are hundreds or thousands of potentially relevant patents owned by hundreds of different patentees. FTC REPORT, Ch. 2, at 27. Inevitably, the technology company will not have obtained a license with respect to some number of patents that might be relevant to its products.

If the technology company does become the target of a patent infringement claim, the Federal Circuit's automatic injunction standard has the effect of coercing settlements even of claims that rest on invalid or inapplicable patents. A hardware or software company simply cannot afford to risk an adverse jury verdict and the injunction prohibiting the sale of its products that would follow as a matter of course. Paying an extortionate settlement is a logical business decision in these circumstances. Cf. *Blue Chip Stamps* v. *Manor Drug Stores*, 421 U.S. 723, 740-41 & 742-43 (1975) (recognizing the risk of unjustified settlements).[3]

Of course, the ill effects of these settlements are not limited to the companies that enter into them. They extend to consumers and our entire economy. Most obviously, any royalties paid "must be reflected in the price of final goods" sold to consumers. Shapiro, *supra*, at 126. In essence, these royalties "create[] a substantial 'innovation tax' that afflicts some of America's most important and creative firms" and, by extension, their customers. Jaffe & Lerner, *supra*, at 16.

Innovation also suffers. A firm that has been forced to enter into an exorbitant settlement will think twice before it invests the resources needed to bring a new product to market. The hardware or software company must consider whether the product under development will be sufficiently profitable

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[3] These settlements have the additional harmful effect of strengthening weak patents. Jaffe & Lerner, supra, at 115 ("the patentholder can use the fact that the first firm settled as evidence of the validity of the patent").

to cover not only development and production costs, but also a settlement payment on an unjustified infringement claim. Shapiro, *supra*, at 126 (concluding that the risk of infringement lawsuits will cause some firms to "avoid the mine field altogether, that is, refrain from introducing certain products for fear of holdup"). That additional burden inevitably deters innovation and – given the importance of the technology industries to the entire economy (see note 2, *supra*) – thereby inflicts significant damage upon our entire economy.

2. *The Harmful Effects Of The Federal Circuit Rule Are Aggravated By The Growing Phenomenon Of Patent Litigation Firms.*

These harmful effects have been exacerbated by the significant growth of "patent litigation firms" – entities that "buy patents from other companies (particularly bankrupt ones) not to practice but to assert against others" in infringement actions. FTC REPORT, Ch. 2, at 31; see also *Overstock.com* v. *Furnace Brook, LLC*, 2005 U.S. Dist. LEXIS 25983, at *1-2 (D. Utah Oct. 31, 2005).[4] They have no interest in the additional patent rights that would result from cross-licensing agreements, because they are in the business of filing lawsuits, not of inventing new products. Schacht & Thomas, *supra*, at 9.

Patent litigation firms typically do not assert infringement claims until the target of the claim has brought a product to

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[4] Patent rights today are starting to be purchased at auction by patent litigation firms in the same way that other "collectors" acquire cars and antiques. See Ocean Tomo, Spring 2006 Patent Auction, *at* http://tinyurl.com/cnull. Patent litigation firms often are referred to as "patent trolls" because – like the trolls in fairy tales who hid under bridges and attacked innocent passers-by – these modern-day equivalents attack unsuspecting technology companies. *E.g.*, Schacht & Thomas, *supra*, at 9.

market or a standard has been finalized by a standard-setting organization. The reason for this behavior is simple: it maximizes the value of the infringement claim. Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 69 (2004).

As we have discussed, once a technology company has invested substantial resources in design and production, an injunction – even one based on a relatively insignificant aspect of the product – becomes "a club to be wielded by the patentee to enhance his negotiating stance." *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974). Patent litigation firms thus reap significant benefits from the Federal Circuit's injunctive relief standard without actually obtaining – or, indeed, even having a particularly good case for – an injunction.

Even when there is a judicial determination of infringement the automatic injunction rule may produce results that are inconsistent with any concept of equity. In *NTP, Inc.* v. *Research In Motion Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), *cert. denied* (Jan 23, 2005), an injunction would force RIM to discontinue service to 3.65 million Blackberry users. This prospect caused RIM's stock price to fall twenty percent, and, after a tentative settlement for $450 million broke apart, observers have speculated the company may be forced to settle for up to $2 billion even though damages in the case currently stand at about $250 million and the PTO has now preliminarily ruled that virtually all of the plaintiff's claims are not patentable. Yuki Noguchi, *Court Rejects Blackberry Appeal; Ruling Could End Most U.S. Service*, WASH. POST, Jan. 24, 2006, at D4; Stephanie Stoughton, *RIM Pressured to Settle BlackBerry Case*, Associated Press, Dec. 15, 2005, *available at* http://tinyurl.com/exev8. Indeed, the Justice Department has questioned the propriety of injunctive relief – both as applied to government users and the public at large. See pages 29- 30, *infra*.

The potential for disruption of innovation is particularly serious when the patent litigation firm claims that its patent covers part of an existing industry standard – a claim that typically is not advanced until *after* the standard is adopted. See, *e.g.*, FTC REPORT, Ch. 2, at 22; see also *Rambus, Inc.* v. *Infineon Techs. AG*, 318 F.3d 1081, 1105 (Fed. Cir. 2003) (company that sought to patent an industry standard after the standard was published not liable for fraud).[5]

One small firm has recently asserted ownership of patents covering part of XML, "a widely used method for storing and sharing information in many forms, from purchase orders to information in Web pages" developed by the World Wide Web Consortium in the 1990s. Martin LaMonica, *Small Company Makes Big Claims on XML Patents*, CNET News.com, *at* http://tinyurl.com/a9dpq (Oct. 21, 2005). Another patent litigation firm claims to own a patent covering certain technology underlying JPEG, a standard method of sharing images on the Internet that was developed by the Joint Photographic Experts Committee. Matt Hines, *Graphics Patent Suit Targets Dell, Others*, CNET News.com, *at* http://tinyurl.com/ae73h (Apr. 23, 2004).

Changing an established standard is extraordinarily difficult: numerous technology companies have incorporated the standard into the products in order to provide the interoperability that customers demand. Janice M. Mueller, *Patenting Industry Standards*, 34 J. MARSHALL L. REV. 897, 902-04 (2001). The automatic injunction rule allows the belated claimant to extort settlements from all technology companies,

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[5] "In the most extreme cases, patent applicants add claims [to already pending applications] to cover ideas they never thought of themselves but instead learned from a competitor." Lemley & Moore, *supra*, 84 B.U. L. REV. at 76 (2004). Notwithstanding the apparent inequity, the Federal Circuit has expressly sanctioned this conduct. *Kingstown Med. Consultants, Ltd.* v. *Hollister Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1985).

because the costs of changing the standard would be tremendous and, moreover, might not be practical at all if products based on the existing standard already had been released into market. If the patent owner neither practices the invention nor grants an exclusive license to an entity that practices it, but rather seeks to enter into nonexclusive license agreements with all interested parties, an injunction does nothing to safeguard for the patentee the "inherent technical advantages of the invention"; the patentee's own conduct shows that it is willing to share those advantages. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property*, 17 BERKLEY TECH. L.J. 1043,1043-44 (2002). The threat of an injunction serves simply to empower the patentee to extract a larger payment because of vendors' need to incorporate the standard into their products to provide the interoperability that consumers demand.

A similar problem occurs when a firm belatedly asserts a patent on a well-developed *de facto* standard – *i.e.*, an informal standard that results from its popularity rather than its promulgation by a particular body – that users assumed had entered the public domain. See, *e.g.*, Jennifer A Kingson, *Two Patents, Many Lawsuits Aimed at Banks*, N.Y. TIMES, at C1, Dec. 25, 2004 (describing lawsuits filed against banks and other financial services firms in which a patent litigation firm claims to own patents covering "a way to store and retrieve transaction records electronically" that, "[g]enerally speaking, * * * is already the way that credit card transactions are processed and, increasingly, the way that paper checks are handled, too"). There too, the threat of an injunction is an effective tool for extracting huge settlements.

In light of such cases, it is hardly surprising that many firms choose to settle even weak claims. And while high-profile cases generally involve large, well-known companies, small firms are even more vulnerable to abusive litigation because they lack "extensive financial resources to engage in protracted litigation." Jaffe & Lerner, *supra*, at 13-14.

The pressure to settle unjustified infringement claims that stems from the potentially crippling effect of an injunction is increasing as a result of the forum shopping by infringement plaintiffs – particularly patent litigation firms – that has become a staple of today's patent litigation. See generally Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 937 (2001) ("[f]orum shopping is alive and well in patent litigation").

Patent infringement claims may be filed in any judicial district in which the defendant is subject to personal jurisdiction. 28 U.S.C. §§ 1400 & 1391(c). State long-arm statutes effectively subject defendants to personal jurisdiction anywhere that the alleged infringing product is sold or infringing process is practiced. For all large companies and many smaller ones, that means venue is available in any district in the Nation.

Although it is far from a corporate hub, the Eastern District of Texas – and Marshall, Texas, in particular – has in recent years become an extremely popular forum in which to file infringement claims. See M. Craig Tyler, *Patent Pirates Search Texas for Treasure*, 20 TEX. LAW., No. 29, at 39 (Sept. 20, 2004).

Indeed, "[t]he number of patent cases filed there jumped from 58 in 2003 to 110 in 2004, [to] 115 filed * * * through September [of 2005]." Alan Cohen, *From PI to IP; Texas Attorneys Transform Their Practices After Tort Overhaul*, 21 TEX. LAW., No. 36, at 15 (Nov. 7, 2005).[6] Plaintiffs' attorneys in East Texas have "transition[ed] from personal-injury

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[6] In 2004, the only other districts with more than 100 filings were San Francisco, Los Angeles, New York , Delaware, Chicago, New Jersey, and Philadelphia. Admin. Office of the U.S. Courts, JUDICIAL BUSINESS OF THE UNITED STATES COURTS 2004, at tbl.C3, Special.

work – in steady decline since the Texas Legislature got serious about tort reform – to intellectual property work, where business is booming." *Ibid.* The phenomenon has been given a catchy label: the "PI to IP transition." *Ibid.*

The reason for this patent litigation boom appears to be the perception that local juries are "plaintiff-friendly." *Ibid.*; see also Tyler, 20 TEX. LAW., No. 29, *supra*, at 40 ("Juries in East Texas * * * are much less likely to have a member with any technical training or education, which * * * makes East Texas federal courts an attractive venue for would-be plaintiffs, who know that the jury will, instead, gravitate toward softer or superficial issues that are difficult to predict."). The facts seem to bear out this appraisal. "Since 1994, patent owners have prevailed in 88 percent of all jury trials and 75 percent of bench trials in Marshall," (Cohen, 21 TEX. LAW., No. 36, at 16) figures that far exceed the national averages, see Kimberly A. Moore, *Judges, Juries, and Patent Cases – An Empirical Peek Inside the Black Box*, 99 Mich. L. Rev. 365, 386 (2000) (68% and 51%, respectively).

In many infringement cases, therefore, the defendant is faced with the prospect that an injunction with the potential to inflict substantial losses will be granted automatically if a jury predisposed to rule in favor of the plaintiff does so.

Finally, there are reasons to believe that these trends are accelerating. Empirical evidence indicates that patent litigation firms account for a growing share of patent infringement claims. A recently conducted survey of technology companies by the American Electronics Association (AeA) reports that patent litigation firms were the source of *83%* of the patent infringement demand letters received by the companies participating in the survey. AeA, *AeA Patent Survey Finds that Patent Litigation Impacts High Tech's Bottom Line*, AeA Competitiveness Series (draft, forthcoming 2006).

* * * * *

In sum, the Federal Circuit's automatic injunction rule combines with other characteristics of the patent system to confer overwhelming and unfair leverage on patent plaintiffs. While defendants can use reciprocal licensing to gain some degree of certainty in preventing unreasonable settlement demands by technology companies and legitimate research institutions, that technique is far from comprehensive and has no effect on patent litigation firms. Elimination of the automatic injunction rule, so that courts may take the facts of each case into account in determining whether an injunction is appropriate, is necessary to balance the incentives in the settlement process and stem the tide of abusive litigation now being asserted by patent litigation firms.

B. The Patent Act Requires Courts To Apply Traditional Principles Of Equity In Determining Whether An Injunction Should Issue.

Section 283 of the Patent Act provides that district courts "*may* grant injunctions *in accordance with the principles of equity*." 35 U.S.C. § 283 (emphasis added). The statute's use of "may," not "shall," clearly signals that injunctive relief is discretionary, not mandatory. Cf. *N.Y. Times Co.* v. *Tasini*, 533 U.S. 483, 505 (2001) (construing similar language in Copyright Act to be discretionary).

Moreover, the statute expressly incorporates traditional "principles of equity," the foremost of which is that an injunction does not issue as a matter of course. *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 311 (1982). Rather, this "Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies" as well as consideration of the balance of hardships between the parties and the public interest. *Id.* at 312.

Finally, the Court has consistently emphasized that the district courts' equitable discretion "is not to be denied or limited in the absence of a *clear* and valid legislative com-

mand." *Porter* v. *Warner Holding Co.*, 328 U.S. 395, 398 (1946) (emphasis added); *accord Romero-Barcelo*, 456 U.S. at 312; *Hecht*, 321 U.S. at 329. Here, of course, Congress's use of "may" expressly *reaffirms* the courts' equitable discretion.

The Federal Circuit's holding that "courts *will* issue permanent injunctions against patent infringement *absent exceptional circumstances*" (Pet. App. 28a (emphasis added)), is thus fundamentally inconsistent with the plain language of Section 283, as well as with this Court's clear precedent concerning the availability of equitable relief in federal courts.

The Federal Circuit's rationale for its automatic injunction rule is that "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (quoting *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). A patent indisputably is a form of property. *Fla. Prepaid Postsecondary Educ. Expense Bd.* v. *Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) ("[Patents] are surely included within the 'property' of which no person may be deprived by a State without due process of law."). But the Federal Circuit's analogy provides no justification for overriding the plain language of Section 283.

To begin with, the property rights conveyed by patents are circumscribed by the Patent Act. 35 U.S.C. § 261 ("*Subject to the provisions of this title*, patents shall have the attributes of personal property" (emphasis added)). And the Act does not provide that injunctions are always available; rather, district courts "may grant injunctions in accordance with the principles of equity." That language is controlling.

Moreover, by providing that "patents shall have the attributes of personal property" – not real property – the Act directs attention to a legal context in which courts apply the traditional equitable factors to determine whether injunctive

relief is appropriate. See, *e.g.*, 43A C.J.S. *Injunctions* § 119 (2004) (an injunction will not be granted "to prevent the removal or conversion of personal property where the injury may be fully redressed by an action at law for damages").

Even in the case of a trespass to land, moreover, "injunctive relief * * * is discretionary and subject to equitable considerations, and it is not available as a matter of right." *Id.* § 132. In particular, where a landowner inadvertently constructs a building that encroaches slightly upon his neighbor's property but does not interfere with the use of enjoyment of the rest of the property, courts rarely, if ever, issue an injunction against the trespass.[7] In such cases, a "central consideration[]" for the court is the "interest in preventing extortion by the encroachee, who may use an injunction to 'compromise' the claim." *Id.* § 142. There simply is no basis in property law for the Federal Circuit's mandatory injunction rule.

Finally, nothing in this Court's decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), compels the Federal Circuit's approach. The Court there rejected the contention that proof of nonuse by the patentee by itself deprived the district court of the power to issue an injunction. See *id.* at 422. Indeed, the Court expressly

---

[7] *See, e.g., Capodilupo v. Vozzella*, 704 N.E. 2d 534, 535-37 (Mass. App. Ct. 1999) (holding that no injunction should issue where the defendant's structure extended a few inches onto the plaintiff's property but caused the plaintiff no significant hardship, and removal would imperil the stability of the structure); *Kratze v. Indep. Order of Oddfellows, Garden City Lodge # 11*, 500 N.W.2d 115, 117-22 (Mich. 1993); *Amkco Ltd. v. Welborn*, 21 P.3d 24, 25-29 (N.M. 2001); *Malnar v. Whitfield*, 708 P.2d 1093, 1095 (Okla. 1985) ("where the encroachment is slight, the cost of removal will be great, and the corresponding benefit to the adjoining owner small, or adequate compensation by way of damages can be had, a court will ordinarily decline to compel removal").

left open the question whether in a particular case "a court of equity might be justified in withholding relief by injunction." *Id.* at 430. That conclusion is fully consistent with the statutory language directing courts to apply traditional equitable principles in deciding whether to grant injunctive relief.

The only logical interpretation of Section 283 is that the availability of injunctions turns upon the traditional equitable factors. We next discuss how those factors should apply in the patent infringement context.

C. The Traditional Equitable Factors Require A District Court To Assess The Particular Facts Of Each Case To Determine Whether An Injunction Is Appropriate.

This Court in *Romero-Barcelo* clearly articulated the four factors that federal courts must consider in deciding whether to grant an injunction: (i) whether the plaintiff is subject to irreparable injury; (ii) whether the plaintiff's legal remedies are adequate; (iii) the balance of hardships between the parties; and (iv) whether an injunction is in the public interest. 456 U.S. at 312. The first two factors, which are two sides of the same coin, are prerequisites to injunctive relief. *Ibid.*; *O'Shea* v. *Littleton*, 414 U.S. 488, 502 (1974).

These equitable factors do not disfavor injunctions in patent infringement actions. Far from it. As the following discussion makes clear, injunctions will virtually always be appropriate in the typical case of infringement in which a patentee practicing the invention sues a competitor in the same market selling products that infringe the patent.

However, as we have discussed (see pages 7-15, *supra*), some patent infringement claims deviate substantially from this paradigm. Application of the traditional equitable factors enables courts to identify situations in which a patent litigation firm is seeking an injunction for settlement leverage, not to prevent irreparable injury. They also require courts to take

account of the particular factual circumstances in which an infringement claim arises – for example, where issuance of an injunction would disrupt networks on which businesses and consumers rely – and avoid the tremendous costs that stem from reflexive issuance of an injunction. Indeed, that is the very purpose of equity: to fashion relief that fits the particular circumstances of each case.

District courts apply these factors in a myriad of contexts every day. They are well qualified to apply them in patent infringement actions. By considering the practical realities of specific industries, the facts of the case before the court, the dynamics of patent litigation, and the public interest, the district courts can and should do what the Federal Circuit's rule now prevents them from doing – "mould[ing] each decree to the necessities of the particular case." *Hecht*, 321 U.S. at 329.

While the outcome of this inquiry turns on the facts of each case, this Court can and should provide guidance to the lower courts regarding the application of the general equitable factors in the patent infringement context. With respect to each factor, there are several specific considerations that a court should assess to determine if injunctive relief is proper.

1. The Plaintiff Must Establish Irreparable Injury And Inadequacy Of Legal Remedies.

An irreparable injury is, stated simply, an injury for which there is no adequate remedy at law. 1 Dan B. Dobbs, LAW OF REMEDIES § 2.5(1) (1993). "The key word in this consideration is irreparable. Mere injuries, however substantial, in terms of money, time and energy * * * are not enough." *Sampson* v. *Murray*, 415 U.S. 61, 90 (1974) (quoting *Virginia Petroleum Jobbers Ass'n.* v. *FPC*, 259 F.2d 921, 925 (D.C. Cir. 1958)).

An easy case is presented when the patentee practices its patent and competes with the alleged infringer. When a patentee practices its patent, the patented technology's essential

value is often the competitive advantage it gives the patentee as the exclusive provider of a unique product or service. Moreover, if the patented technology is popular, the patentee may be able to parlay that success into increased sales of complementary products and consumer goodwill. Any attempt to quantify the loss of all direct and indirect benefits flowing from the patent would inevitably devolve into a battle of economists. "Accordingly, * * * a monetary award would be speculative because the amount of damages would be difficult or impossible to measure" accurately. 11A Charles A. Wright et al., FEDERAL PRACTICE & PROCEDURE § 2944 (1995). For the same reasons, a patentee that licenses its technology exclusively to a third party that in turn practices the invention has a strong case for irreparable harm. Infringement interferes with the exclusivity of the license, which is designed to transfer to the licensee the benefits that accrue to a patentee that practices its invention. It therefore will disrupt the relationship between the patentee and its licensee in a way that is difficult to reduce to monetary damages.

Where, on the other hand, a patentee grants a nonexclusive license at a set price to anyone willing to pay, irreparable injury will be difficult to demonstrate. Infringement certainly injures the patentee in an economic sense because it deprives the patentee of licensing revenues; however, the patentee's willingness to enter into a license with all comers may indicate that its loss is reparable through the payment of monetary damages. See Pet. App. 55a (citing "the plaintiff's willingness to license its patents [and] its lack of commercial activity in practicing the patents" in concluding that the plaintiff would not suffer irreparable harm).

Other cases will fall somewhere along the continuum between these examples. Thus, a patentee that manufactures a patented product may decide not to practice a particular patent because it determines that the costs of implementing the new technology – often an incremental improvement – out-

weigh the benefits of its use. This can occur when the patent represents an incremental improvement of existing manufacturing technology, but the cost of implementing that new technology exceeds the benefits that would accrue to the business. See *Continental Paper Bag Co.*, 210 U.S. at 428-29. If a competitor infringes the patent, damages may be just as difficult to quantify as in the case of the patentee that practices its patent, and the injury may be properly deemed irreparable.

Finally, there is no basis for recognizing a presumption of irreparable injury in the patent context. Such an approach would be contrary to the statutory language: the "principles of equity," incorporated into Section 283 include the general rule that the plaintiff must establish irreparable injury and inadequacy of legal remedies. *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 61-63 (1975); 11A Wright et al., *supra*, §§ 2942 & 2944. Indeed, this Court has stated that a "presumption [of irreparable injury] is contrary to traditional equitable principles." *Amoco Prod. Co.* v. *Vill. of Gambell*, 480 U.S. 531, 545 (1987).

The fact that Congress expressly created presumptions elsewhere in the patent statute, see 35 U.S.C. §§ 282, 293(b)(5)(D) & 295, but not here, undercuts any basis for inferring that Congress authorized a presumption of irreparable injury implicitly in Section 283. Without a clear congressional limitation, there is no basis for creating such a presumption. *Porter*, 328 U.S. at 398 (the district courts' equitable discretion is "not to be denied or limited in the absence of a clear and valid legislative command").

2. *The District Court Must Canvass All Of The Relevant Facts In Assessing The Parties' Relative Hardships.*

Principles of equity require courts to balance the hardship that an injunction would inflict on the infringing company against the harm withholding an injunction would

impose on the patentee. *E.g.*, *Romero-Barcelo*, 456 U.S. at 312. This balance requires close consideration of all of the facts of the particular case; relevant factors may include:

- harm to the patentee or its licensee if no injunction is issued;
- the patent owner's investment in the patent and the circumstances of its acquisition;
- whether the patentee presented its claims to the PTO before the alleged infringing activity became publicly known;
- whether the infringing company made significant investments dependent on the patented technology before it learned of the alleged infringement; and
- whether the injunction would require the defendant to redesign its product in a way that would render it incompatible with other products or services, causing products already in use by consumers to be negatively affected.

The court should consider the significance of the patent owner's investment in the patent and the circumstances of its acquisition, as well as the impact of the failure to grant an injunction on the patent owner's use of the patent. If the patent owner's investment was considerable and the patent owner is practicing the invention or has granted an exclusive license to a third party, the harm from failure to grant an injunction typically will be substantial.

Patent litigation firms, by contrast, often purchase obscure patents at bankruptcy "fire sales" for the sole purpose of asserting infringement claims against established companies. *E.g.*, *Overstock.com*, 2005 U.S. Dist. LEXIS 25983, at *1-2 ("[T]his case appears to involve a patent troll. * * * Defendant * * * purchased its patent at a bankruptcy auction in 2003 and, without any apparent attempts to practice it, has

since sent infringement letters to, among others, Williams-Sonoma, Inc.; Sharper Image Corporation; Gap, Inc.; Spiegel, Inc.; Eddie Bauer, Inc.; L.L. Bean, Inc.; and Ann Taylor Stores Corporation.").

When a patent is purchased cheaply for the sole purpose of demanding royalties from others, awarding damages in lieu of an injunction will rarely, if ever, constitute a serious "hardship." The infringement is unlikely to impair the patent's utility to the patent litigation firm, and existing licensing agreements may provide a basis for assessing damages.

The timing of the patentee's actual presentation of the particular claim to the PTO (either in the initial filing or through an amendment (see note 5, *supra*)) also may be relevant. If the plaintiff, or the patentee from whom the plaintiff purchased the patent, did not file the claim embodied in the patent until after the defendant released its product publicly or after industry standard-setters agreed on a standard, the patent owner's claim of hardship will be less weighty, and the burden on the defendant will be correspondingly greater, than if the claim had been filed prior to any public activity.

On the other side of the balance, if significant investments by the defendant are dependent on the patented technology, and the defendant did not learn of the patent until after those investments were made, an injunction will impose large redesign costs on the hardware or software company that could have been avoided had it been aware of the patent *ex ante*. An injunction may also produce significant hardship if it requires the redesign of a product that "present[s] compatibility problems with other products or between different versions of [the] product." Shapiro, *supra*, at 125.

In other contexts, courts routinely weigh such economic waste in the balance of the hardships. *E.g.*, *City of Harrisonville* v. *W.S. Dickey Mfg. Co.*, 289 U.S. 334, 337-39 (1933) (holding that no injunction should issue where abating a nuisance would require a city to abandon an existing sewage

treatment plant and construct a new one and harm to the plaintiff was slight in comparison); *Amoco Prod. Co.*, 480 U.S. at 545 (concluding that the balance of hardships favored the defendant oil companies, who "had committed approximately $70 million to exploration to be conducted during the summer of 1985 which they would have lost without chance of recovery had exploration been enjoined").

For example, in property cases in which a trespasser has built a structure that encroaches on his neighbor's property,

> [i]f the total cost of removal, including the loss of value in defendant's remaining building, [is] very high in comparison to the harm done to the plaintiff * * *, that disparity in economic consequences [is] a significant factor in determining whether to issue an injunction. Unless the equities [run] in the other direction, the injunction * * * [will] not issue[.]

1 Dobbs, *supra*, § 5.10(4), at 817. These courts frequently emphasize the need to "prevent[] extortion by the encroachee, who may use an injunction to 'compromise' the claim." 43A C.J.S. *Injunctions* § 142; *accord* RESTATEMENT (SECOND) OF TORTS § 941 cmt.c (1981) ("[T]o issue an injunction might make the court a party to extortion").

Similarly, before the creation of the Federal Circuit, courts recognized that "[a]n injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. *It is not intended as a club to be wielded by a patentee to enhance his negotiating stance.*" *Foster*, 492 F.2d at 1324 (emphasis added); see also *Nerney* v. *N.Y., New Haven, & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1936) (injunction should not issue if it would cause "a much greater injury * * * to the infringer than a benefit to the patentee" and "the only real ad-

vantage to [the patentee] would be to strengthen its position in negotiating a settlement").[8]

Courts should also consider the significance of the patented technology to the whole of the infringing company's product. It may be inequitable to issue an injunction if the infringement involves only a minor component. For example, when the owner of the copyright for a short story that formed the basis of the film "Rear Window" sought to enjoin the film's re-release on television, in movie theaters, and on videocassette, the Ninth Circuit reasoned that the film:

> resulted from the collaborative efforts of many talented individuals other than * * * the author of the underlying story. The success of the movie resulted in large part from factors completely unrelated to the underlying story * * *. It would cause a great injustice for the owners of the film if the court enjoined them from further exhibition of the movie.

Abend v. *MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988), *aff'd sub nom. Stewart* v. *Abend*, 495 U.S. 207 (1990) *and cited with approval in Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1993).

The "injustice" described in *Abend* closely resembles the situation in which a software company inadvertently infringes a single patent in the course of designing and manufacturing a product that contains thousands of patentable technologies. The company probably could have invented around the patent with ease had it been aware of it *ex ante*, and "the patentable technology contributes little if anything

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[8] In contrast, the court below reasoned that "[i]f the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." Pet. App. 27a.

to the final product, and any reasonable royalty would be modest at best." Shapiro, *supra*, at 125.

If an injunction is granted, however, the patentee can extract much more than a "reasonable royalty"; when the infringing company has made significant investments or redesign would be costly, the patentee can demand royalties that far exceed the contribution of the patented technology to the product as a whole. Compare *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983) (Congress amended the Patent Act in 1946 to exclude the infringer's gain as a basis for damages, thereby rejecting "the notion that [the patentee] should be able to force the infringer to disgorge the fruits of the infringement even if it caused him no injury").

3. The District Court Must Examine Every Aspect Of The Public Interest, Not Only The Public Interest In Patent Enforcement.

"In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction." *Romero-Barcelo*, 456 U.S. at 312. Although the paramount "public interest" in the vast majority of patent cases is the promotion of innovation through the enforcement of patent rights, that is not the sole public interest that should be considered by a district court deciding whether to grant an injunction.

The Federal Circuit recognized that public health concerns may justify refusing to issue an injunction. Pet. App. 26a. Courts should consider other aspects of the public interest as well.

For example, the public interest would weigh against injunctions that would deprive the public of useful products or services or disrupt technology already in widespread use. The Department of Justice filed a Statement of Interest in the Blackberry litigation (see page 13, *supra*), explaining that the government had a substantial interest in ensuring that any

injunction entered in that litigation would not interfere with government users. The Justice Department further stated that "the federal government may have a further interest in this case to the extent that it is vital for it to be able to communicate in real-time with private parties, including government contractors, through BlackBerry™ devices. The government is currently assessing the extent of its interest in such communications, and the extent to which the public interest would be impaired by the award of any injunctive relief" in favor of the plaintiff in that case. United States' Statement of Interest, *NTP Inc.* v. *Research in Motion, Ltd.*, No. 3:01CV767 (E.D.Va.), at 2 (filed Nov. 8, 2005).

Patent claims based upon industry standards (see pages 14-15, *supra*) present a similar risk to third-party users, and the society as a whole, because injunctive relief generally would prohibit the use of technology needed to allow systems of interactive products and services to continue in operation. Courts must consider these and other effects on third parties in determining the "public consequences" of injunctive relief.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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In The
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EBAY INC. and HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, LLC,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF FOR *AMICUS CURIAE* COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

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BRIEF FOR *AMICUS CURIAE* COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

The Computer & Communications Industry Association (CCIA) submits this brief as *amicus curiae* in support of Petitioners eBay Inc. and Half.com, Inc., and respectfully requests that the Federal Circuit be reversed.

INTEREST OF *AMICUS*

The Computer & Communications Industry Association is a non-profit trade association dedicated to open markets, open systems, and open networks. CCIA members participate in many sectors of the computer, information technology, and telecommunications industries and range in size from small entrepreneurial firms to the largest in the industry.[1] CCIA members use the patent system regularly, and depend upon it to fulfill its constitutional purpose of promoting innovation. CCIA is increasingly concerned that the patent system has expanded without adequate accountability and oversight.

This brief addresses how the Federal Circuit's standard for injunctive relief reflects and reinforces other problematic Federal Circuit decisions. Neither CCIA nor its members have a direct financial interest in the outcome of this litigation. However, allowing the Federal Circuit's

[1] Counsel for a party did not author this brief in whole or in part. No person or entity other than CCIA, its members, or its counsel made a monetary contribution to the preparation or submission of this brief. Counsel for all parties have consented to the filing of this brief and letters of consent have been submitted to the Clerk of the Court.

decision to stand would subject CCIA members to increased patent litigation, burden information technology and software, and undermine the legitimacy of the patent system as a whole.

SUMMARY OF ARGUMENT

The first issue presented in this case is whether the standard for injunctive relief in patent cases as articulated in 35 U.S.C. § 283 is consistent with general principles of equity or there should be a *sui generis* standard of automatic injunctive relief as articulated below by the U.S. Court of Appeals for the Federal Circuit. The second issue is whether the Court should reconsider precedent on patent injunctions, namely, *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). *Amicus* CCIA argues that the *sui generis* standard manufactured by the Federal Circuit conflicts with Section 283. CCIA does not believe that *Continental Paper Bag* conflicts with this principle, as its language is largely dicta, and it has been superseded by the 1952 rewrite of the Patent Act. If this Court concludes, however, that *Continental Paper Bag* cannot be rationalized with Section 283, then it is the former that must give way.

The Federal Circuit's standard of automatic injunctive relief is fundamentally hostile towards complex products, especially today's extremely complex, systems-based digital information technology. The value of a deeply embedded patented function or component may be miniscule in relation to the value of the finished product and the costs of bringing it to market. Under such conditions, the extraordinary leverage accorded by automatic injunctive

relief enables the patentee to extract settlements that approach the costs of shutting down an entire product line, far in excess of what a reasonable royalty is likely to be.

The undue leverage afforded by automatic injunctive relief belongs to a larger set of interrelated problems that are having a profound, often negative effect on intellectual property practice in the information technology sector. These problems are manifestations of the Federal Circuit's doctrinal championing of patent rights without due consideration for the economic characteristics of different innovation environments and the inevitable dangers that a rigid jurisprudence poses to large segments of the economy.

Following its unique bureaucratic imperative, the Federal Circuit has become, in the words of Judge Posner, "a booster of its specialty."[2] While championing the expansion in scope and scale of the patent system, the Federal Circuit has instituted a narrowed stewardship, which along with the institutional biases that result from a fee-funded U.S. Patent and Trademark Office (PTO), has resulted in a system that operates in a dangerously self-serving manner.

The Federal Circuit's expansionist jurisprudence has unbalanced and distorted the U.S. patent system, especially as it affects information technology, software, and business services. In effect, it has transformed patent law

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[2] Declan McCullagh, *Left Gets Nod from Right on Copyright Law*, C|Net News, Nov. 20, 2002, *available at* http://news.com.com/2100-1023-966595.html. *See also* William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 335 (2003) ("The Federal Circuit has indeed turned out to be a pro-patent court in comparison to the average of the regional courts that it displaced . . . ").

from a rigorous technical specialty into a general law of novelty that reaches into every sector and all aspects of human activity. The Federal Circuit has made patents more potent, easier to get and assert, and available for an unlimited range of subject matter. In addition, the PTO's own bureaucratic incentives have led it to grant patents in increasing number, and arguably, decreasing quality.

Together, these phenomena promote an inflationary spiral of patents in the information technology industry, fed by a perceived need and demand to assemble ever-larger patent portfolios. These effects produce anti-competitive behavior, foster more litigation, and undermine innovation.

It is against this backdrop of extraordinary growth and distortion that the Federal Circuit has endorsed a manifestly inappropriate standard for injunctive relief. Accordingly, the Federal Circuit should be reversed.

ARGUMENT

I. The Automatic Injunction Rule Exacerbates Existing Problems In The Patent System.

A recent study by the Federal Trade Commission (FTC) confirmed what many technologists have long believed: the U.S. patent system contains deep flaws that prevent it from efficiently performing its constitutional purpose of promoting the progress of science and the arts, particularly with respect to complex technologies. *See generally* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) (FTC Report). Some of the problems flow from structural biases at the Patent and Trademark

Office. Others are rooted in a pattern of questionable Federal Circuit decisions that has made patents overly attractive, thereby increasing demand and putting pressure on a system that already resolves many questions in favor of patent applicants and holders. The automatic injunction rule fashioned by the Federal Circuit in the decision below significantly amplifies these other problems by placing a dangerously powerful weapon in the hands of a patentee who, but for the Federal Circuit's and the PTO's expansive policies, might not hold the patent to begin with.

Through ritual invocation of the patent incentive while ignoring external precedent, scholarly literature and empirical economic evidence,[3] the Federal Circuit has proved not only a booster of patents but a guardian of a lawyer's patent system, narrowly focused on the individual case but blind to the effects of patents on particular fields and indifferent to aggregate economic impact. This unsupervised expansion has triggered a staggeringly expensive arms race. As expressed by two prominent economists of innovation, "we converted the weapon that a patent represents from something like a handgun or a pocket knife into a bazooka, and then started handing out the

[3] The Federal Circuit's insularity is confirmed by research showing its reluctance to cite scholarship or even judicial decisions other than its own. Craig A. Nard, *Toward a Cautious Approach to Obeisance: The Role of Scholarship in Federal Circuit Patent Law Jurisprudence*, 39 Houston L. Rev. 667, 678-81 (2002). Unfortunately, the Federal Circuit's bottleneck position inhibits robust policy debate. Companies, academics, and practitioners alike are reluctant to speak critically of a court that has a near monopoly on patent law and a record of activism. All are acutely aware that they will inevitably appear before the court as advocates in particular cases and are understandably concerned about taking public positions that the court might view as antagonistic.

bazookas to pretty much anyone who asked for one, despite the legal tests of novelty and non-obviousness." Adam B. Jaffe & Josh Lerner, *Innovation and Its Discontents* 35 (2004).

By depriving district courts of the ability to fashion equitable relief, the Federal Circuit expresses misplaced confidence in an oversimplified vision of the patent system. As conceived by the Federal Circuit, the patent system need not attend to detail, nuance, circumstance, or change. This simplification of the rule of automatic injunctive relief is part of a pattern that includes issues raised by two other cases before this Court:

> (1) The collapse of subject matter eligibility into the utility standard. *See State Street Bank & Trust Co. v. Signature Fin. Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). This problem is currently before the Court in *Laboratory Corp. v. Metabolite Labs., Inc.*, No. 04-607; and
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> (2) The emasculation of the nonobviousness standard by requiring a documented suggestion or motivation to combine in order to find a combination of known elements obvious. This issue is presently the subject of a petition for certiorari in *KSR International v. Teleflex, Inc.*, No. 04-1350.

The principles expressed by the Federal Circuit in these cases leverage each other by making patents more potent, easier to get and assert, and available for an unlimited range of subject matter.

A. The Federal Circuit Has Made Patents More Potent.

By requiring injunctive relief, the Federal Circuit has made patents extraordinarily potent. Under general principles of equity, injunctive relief may well make sense in many circumstances, particularly where there is a close correlation between patents and products. However, the Federal Circuit's automatic rule removes the opportunity to examine the full range of factors that courts of equity normally consider. It demands ignorance of the economic realities of the situation, while depriving defendants of their interests in equity and district courts of their equitable powers.

In information technology, an infringing function may represent only an infinitesimal fraction of the value of a marketed product that embodies a complex technology. *See* FTC Report, ch. 3, at 52. In determining damages, a court can evaluate the importance of the infringing function relative to the product as a whole. However, if injunctions are automatic, a patent on a single deeply embedded function can suddenly freeze an entire product line. The loss of the product line may well be catastrophic for the manufacturer, who faces the burden of extracting infringing functionality once a product has been designed, tested, debugged, packaged, and put on the market. In this context, economies of scale and scope, which have brought the benefits of information technology to millions at low cost, become a vulnerability. A single obscurely embedded patent can hold hostage an enormous sunk investment in manufacturing, distribution, and marketing of a costly, feature-rich, product. Under such circumstances, the mere threat of an injunction carries enormous weight, tilting

the negotiating table against the manufacturer in proportion to its investment.

In effect, this leverage allows the patent owner to free-ride on the innovation investments of others. The power and leverage to radically disrupt innovation and commerce in complex technologies is an unneeded and dangerous add-on to the patent incentive. This form of extortionate leverage does not exist as a practical matter in discrete technologies, and judges should not be forced to require it in complex technologies.

Even if the patent system were perfect in all possible respects, the Federal Circuit failed to justify its deviation from normal principles of equity. But the patent system is far from perfect. Other problematic decisions by the Federal Circuit and the institutional biases of the PTO multiply the damage caused by the automatic injunction rule.

B. The Federal Circuit Has Made Patents Easier To Get.

Prior to the Patent Act of 1952, the Supreme Court articulated a very high standard for patentability: an invention must evidence a "flash of creative genius" to merit a patent. *Cuno Eng'g Corp. v. Automatic Devices Corp.*, 314 U.S. 84, 91 (1941). The current Act, drafted by two patent attorneys assigned to serve as staffers, *see* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* in *Patent Procurement and Exploitation* 61, 68 (BNA 1963), contained the present language on the "person having ordinary skill in the art" (PHOSITA) test, which effectively buried the subjective determination within a superficially objective standard while putting the

burden of showing obviousness on the examiner. *See* 35 U.S.C. § 103(a). This test appeared to overrule the Court's *Cuno* standard. The Court interpreted this new standard in its 1966 *Graham* trilogy. *Compare* Rich, *supra*, at 76 n.21 *with Graham v. John Deere Co.*, 383 U.S. 1, 15 (1966) (quoting § 103(a)). *See also United States v. Adams*, 383 U.S. 39 (1966).

The Federal Circuit has since further lowered the standard by holding that combinations of known art are not rendered obvious unless there exists a specifically documented suggestion or motivation to combine them. *See Arkie Lures, Inc. v. Gene Larew Tackle, Inc.*, 119 F.3d 953, 957 (Fed. Cir. 1997); *In re Lee*, 277 F.3d 1338, 1345 (Fed. Cir. 2002) (rejecting "common knowledge and common sense" in favor of requiring documentation). While purporting to reduce subjectivity, the requirement of documentation effectively sidesteps the PHOSITA test and reduces nonobviousness into a mere elaboration of the novelty requirement. Combinations of known art are enormously important in information technology where new elements are rare and most innovation routinely combines known elements in new configurations and designs. Many Internet patents are in effect combinations of the Internet and known business practices. *See, e.g.*, U.S. Patent No. 5,794,207 (issued Aug. 11, 1998) (reverse auctions on the Internet). The FTC has recommended that this special permissive treatment of combinations be eliminated. *See* FTC Report, Exec. Summ. at 11-12 (Recommendation 3b).[4]

[4] This issue is presented in the petition before the Court in *KSR International v. Teleflex, Inc.*, No. 04-1350.

The Federal Circuit has also liberalized the standard for nonobviousness in the application of the secondary factors enumerated in *Graham*, 383 U.S. at 16. The FTC report recommends a reformulation of the commercial success factor to ensure that commercial success is attributable to the patent in question rather than other circumstances or product features. *See* FTC Report, Exec. Summ. at 11 (Recommendation 3a).

C. The Federal Circuit Has Made Patents Easier To Assert.

In addition to making patents easier to get, the Federal Circuit has made patents easier to assert by cloaking them in an artificially enhanced presumption of validity, so that challengers must show by "clear and convincing" evidence that the patent should not have been granted. *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983).

The strength of this presumption is not justified because of the ex parte nature of the examination, the limited time available to the examiner, and the fact that the burden is on the examiner to show that the applicant is not entitled to a patent. *See* FTC Report, Exec. Summ. at 8-10 (Recommendation 2) (proposing adoption of "preponderance of the evidence" standard); *id.*, ch. 5, at 26. The unjustified presumption compounds the problem of declining patent quality, as is evidenced most clearly in the information technology sector. *See* Stephen A. Merrill et al., National Research Council, *A Patent System for the 21st Century* 44-48 (2004). This artificially elevated presumption of validity provides patent holders undue

leverage and gives speculators an incentive to acquire and assert questionable patents.

D. The Federal Circuit Has Made Patents Available For An Unlimited Range of Subject Matter.

The controversial extension of patents to pure software and then to business methods is the product of Federal Circuit decisions that conspicuously sidestep Supreme Court precedent.[5] *See Gottschalk v. Benson*, 409 U.S. 63 (1972); *Parker v. Flook*, 437 U.S. 584 (1978); *Diamond v. Diehr*, 450 U.S. 175 (1981). By virtually abolishing subject matter limitations on the patent system in a series of cases culminating in *State Street Bank & Trust Co. v. Signature Fin. Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), the Federal Circuit has single-handedly transformed patent law from an exceptionalist regime tailored to technology to a generalist regime for all areas of human activity. *See* John R. Thomas, *The Patenting of the Liberal Professions*, 40 B.C. L. Rev. 1139, 1163-64 (1999).

Yet the extension in these new directions – on the one hand into the many elements of software and, on other hand, into non-technical business processes – has overwhelmed the administration of the patent system. Because

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[5] As CCIA and other *amici*, including IBM Corporation, argued to this Court in *Laboratory Corp. v. Metabolite Labs., Inc.*, No. 04-607, the judicial allowance of business method patents, justified by an out-of-context quote from a Congressional committee report, has created more uncertainty and competitive concerns than any other recent development in patent law.

software functions at so many different levels of granularity ranging from code-level algorithms to program features to business methods (most of which are implemented in software), it creates opportunities for claiming patents at multiple overlapping levels of abstraction.

Nearly forty years ago, a Presidential Commission warned against software patents because "all inventions should meet the statutory provisions for novelty, utility and unobviousness and [software] cannot readily be examined for adherence to these criteria." President's Commission on the Patent System, *To Promote the Progress of Useful Arts in an Age of Exploding Technology* § IV (1966). The poor quality of the business method patents granted in the wake of *State Street* spurred the PTO to launch a special initiative that included a second level of review. *See* Notice of Roundtable on Computer-Implemented Business Method Patent Issues, 65 Fed. Reg. 38,811, 38,112 (June 22, 2000). According to the PTO director, this initiative cut the allowance rate in target class 705 ("Electronic Commerce") from 75% to 25%. *See* David Streitfeld, *Note: This Headline is Patented*, L.A. Times, Feb. 7, 2003, at A1. Despite this remarkable impact, indicating both the effectiveness of the program and the dire need for quality control, and an FTC recommendation that the practice be expanded to other economically important areas, second-level review has not been formally introduced outside of class 705. *See* FTC Report, Exec. Summ. at 14 (Recommendation 5c).

The patent system's expansion into business methods has engendered the most common and visible complaints about patent quality and the negative effects of patenting. The FTC sector-by-sector analysis shows that patent quality and the role of the patent system in innovation is

perceived most negatively in the software and Internet sector. *Id.*, ch. 3, at 44. Accordingly, the FTC recommends considering "possible harm to competition – along with other possible benefits and costs – before extending the scope of patentable subject matter." *Id.*, Exec. Summ. at 14 (Recommendation 6) (capitalization omitted). The negative U.S. experience with patents in these areas has crystallized consensus in Europe against business method patents, and contributed to the failure of a directive on "computer-implemented inventions" that would have validated the European Patent Office's relaxed standards on software patents.[6] The difficulties experienced in the software and Internet sector contrast dramatically with the perceptions in the pharmaceutical industry, which views patents as essential to protecting products. *See id.*, ch. 3, at 14, 50-56.

E. The PTO's Bureaucratic Interests Undermine Patent Quality.

The constellation of automatic injunctive relief and other Federal Circuit decisions coincides with the shift to fee-funding for the PTO in 1990. Fee-based funding gives the agency an incentive to increase the overall number of patent applications, grants, and maintenance fees in order to maximize its budget. Fee-funding inspired a new

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[6] *See "Should Patents be Granted for Computer Software or Ways of Doing Business?" The Government's Conclusion*, United Kingdom Patent Office, March 2001, *available at* http://www.patent.gov.uk/about/consultations/conclusions.htm; European Parliament News, *Software patents: the 'historic vote' in the European Parliament brings the battle to an end*, July 9, 2005, *available at* http://www.europarl.eu.int/news/public/focus_page/057-1002-255-9-37-909-20050819FCS01001-12-09-2005-2005/default_en.htm.

mission for the PTO's patent business, "to help customers get patents" and an explicitly expansionist performance goal: "Help protect, promote and expand intellectual property rights systems throughout the United States and abroad." *See* U.S. Patent and Trademark Office, *Corporate Plan 2001*, at 18, 23.

For example, the agency's internal incentive system rewards examiners for dispositions, thereby discouraging them from contesting claims (which only delays final dispositions). *See* Robert P. Merges, *As Many As Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L.J. 577, 607 (1999). The result has been a significant diminishment in patent quality, as reflected in an allowance rate possibly as high as 97 percent when continuations are taken into account. *See* Cecil D. Quillen, Jr. & Ogden H. Webster, *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Office*, 11 Fed. Cir. B.J. 1, 3 (2001).[7] Under the Federal Circuit rule, however, the threat of automatic injunctions will discourage firms from disputing these low quality patents.

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[7] The FTC, employing a PTO calculus, suggests that the rate is between 77-81 percent in recent years. *See* FTC Report, ch. 5, at 6 & n.42. Landes and Posner note that "these built-in tendencies for bias are exacerbated by the Federal Circuit's own bias in favor of upholding the validity of patents." Landes & Posner, *supra* note 2, at 352.

II. By Exacerbating The Patent System's Problems, The Automatic Injunction Rule Encourages Litigation And Impedes Innovation.

A. The Automatic Injunction Rule Encourages Litigation.

Given the inherently rich functionality of information technology, these phenomena – the automatic injunction rule, the Federal Circuit's other expansive patent jurisprudence, and the customer orientation of the PTO – have triggered a patent arms race. Facing potential liability on a vast scale, companies in the information technology sector hedge their bets by filing for hundreds of patents, expecting that "mutually assured destruction" will deter others from asserting patents against them. FTC Report, ch. 3, at 35-38.

This deterrent value is increasingly formalized in cross-licenses and non-assertion agreements that provide insurance against litigation. These cross-licenses also create insurance against competition, however, by permitting companies with large portfolios to extract "balancing payments" from smaller competitors. To sustain cross-licensing, companies engage in "portfolio racing" to ensure a steady stream of patents into their portfolios. Hence, the demand for patents keeps rising, perpetuating the arms race.

The density of patents in this innovation environment means that inadvertent infringement becomes unavoidable. This phenomenon reinforces the inflationary cycle. As Cisco observed before the FTC, "[t]he only practical response to this problem of unintentional and sometimes unavoidable patent infringement is to file hundreds of patents each year ourselves, so that we can have something to bring to the

table in cross-licensing negotiations." *See Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy: Hearings Before the Federal Trade Commission*, Feb. 28, 2002 (statement of Robert Barr, Vice President, Worldwide Patent Counsel, Cisco Systems, Inc.) *available at* http://www.ftc.gov/opp/intellect/barrrobert.doc.

While portfolio accumulation is a rational strategy against present and potential competitors, it provides little protection against patent speculation by non-producers. Easily asserted patents, endowed with automatic injunctive relief, become potent weapons in the hands of non-producing patent firms, sometimes referred to as "trolls." These trolls profit solely from holding up producers, and therefore have no need for cross-licenses and no fear of mutually assured destruction. *See* FTC Hearings, *supra*; FTC Report, ch. 3, at 38. The trolls, therefore, are free to pursue aggressive litigation strategies based on questionable patents, which often yield settlements far in excess of the patents' true inventive contribution. Ultimately, these phenomena, stoked by the automatic injunction rule, have fueled an exponential increase in the amount of patent litigation. *See* Landes & Posner, *supra*, at 347-52 (finding statistical evidence that Federal Circuit has caused increase in rate of growth of patent litigation).

B. The Federal Circuit's Rule Impedes Innovation By Ignoring The Changing Nature Of Innovation.

Equitable principles allow courts to respond to particularities in conditions and circumstances that may not be foreseeable in legislation or precedent, both of which are predisposed to fix concrete problems that already exist. Yet the nature of innovation has changed greatly over the

past two centuries. The patent system itself has expanded to address a far greater variety of subject matter, a far greater range of inventive activity, and a far greater scope of market conditions. By advancing a general rule of injunctive relief subject only to rare exceptions, the Federal Circuit embraces a static vision of a patent system rooted to old paradigms.

Patents are not limited to paradigmatic discrete technologies such as mousetraps, drugs, and paper bags, where the market value of the product may be tied to a single patent. In today's complex products, economic value is distributed in thousands of patentable components and processes, but marketable products are far more than the sum of these parts. Most of their value lies in how these patentable elements are made to work together at many different levels, from code-level algorithms to interoperation among end products at a systemic level. Much of the investment and value lies in integration, interoperability, testing, and debugging. Patents do not protect this kind of value. Yet the Federal Circuit's rule on injunctive relief discounts all of this investment by putting it at risk from patents, allowing minimal investments in small pieces to ransom the large investments in putting pieces together and making products work together.

As noted above, automatic injunctive relief, the conflation of subject matter limits and utility, *see State Street*, *supra*, and a suggestion test for obviousness, *see In re Lee*, *supra*, jointly contribute to spiraling patent inflation. This inflation has changed the nature of the patent system by fomenting portfolio races, spawning trolls, and devaluing the disclosure function. At the same time, these phenomena reflect the Federal Circuit's reduction of patent jurisprudence to a smaller number of mechanically

applicable rules. In all three cases, the Federal Circuit advances a rule of uniformity at odds with an increasingly diverse and heterogeneous empirical reality.

This uniformity, which is driven by the simple "one product-one patent" paradigm of pharmaceuticals and paper bags, functions as a form of industrial policy that favors certain models of innovation – and certain sectors – over others. This policy creates a number of intensely motivated winners, including professional intermediaries who benefit from the expansion of the system, along with a larger number of less directly and immediately affected losers, including the general public. This policy also exacts a heavy toll on non-paradigmatic sectors like information technology.

The court is poorly positioned and poorly credentialed to make such policy. The Federal Circuit's current Chief Judge, the Honorable Paul Michel, candidly explained the quandary in 2002:

> We would probably be the least expert, and the least informed, and the least able to even reason from input – if we had it. . . . We just keep replicating the old results based on the old precedents, whether they have kept pace with changes in business, changes in technology, or changes of a different sort. . . . [W]e just get the Federal Circuit talking to itself, with the brief writer just being the echo of what we wrote in all those prior cases. And then we write some more cases, and the cycle just goes on and on and on. And it certainly lacks the benefit of being tightly wired to the evolving reality.[8]

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[8] Hon. Paul R. Michel, Keynote Presentation at Berkeley Center for Law and Technology Patent System Reform Conference (Mar. 1,

(Continued on following page)

The growing particularity and diversity of innovation and competition is a challenge to policymaking in general. Despite its unique oversight of patent law, the Federal Circuit is neither well equipped nor well positioned to gather empirical data and public input. It is chartered to apply the law in a limited appellate capacity, not to develop policy. Nor should it usurp the limited traditional powers of the federal district courts to fashion justice with particularity in a changing diversity of circumstance.

III. *Continental Paper Bag* Does Not Constrain The Court's Decision.

The Court has presented the question of whether it must revisit *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), regarding when an injunction is appropriate. The issue before the Court in *Continental Paper Bag* was whether a trial court had the authority to enter an injunction when the patent owner did not practice the patent; in other words, whether the court *could* issue an injunction, not whether a court *must* issue an injunction. Thus, any language that supports the notion of an automatic injunction rule – as is sometimes argued by so-called patent trolls – is mere dicta. To the extent that this Court finds it is not dicta, it was largely superseded upon the enactment of Section 283 of the Patent Act of 1952, and has been rarely cited by this Court since. If the Court should conclude, however, that *Continental Paper Bag*'s extreme view of patent law is indivisible from its holding, and that this extreme view survived

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2002) *transcription published in* Internet Patent News Service (Greg Aharonian, ed.), July 31, 2002.

the codification of the injunction rule in Section 283, then *Continental Paper Bag* should be overruled.[9]

Since the 1952 Act, this Court has relied upon *Continental Paper Bag* only twice, and even then, only for the pedestrian proposition that a patent confers the exclusive right to exclude. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (right to exclude is "heart of [the] legal monopoly"). Indeed, it is scarcely evident that the Court ever intended to construe patent remedies as broadly as is now urged, for as early as 1923 this Court stated that "*all* that the Government conferred by the patent was the right to exclude. . . ." *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 35 (1923) (emphasis supplied).

The scarce references to *Continental Paper Bag* either before or after the 1952 Patent Act demonstrate that it represents nothing save its indisputable first principle – that a patent confers the right to exclude. This proposition is not in dispute. What is disputed is what remedy a prevailing plaintiff should receive when its right to exclude is infringed. That is, whether *Continental Paper Bag*'s conception of patents as "absolute property" presumptively entitles each patent litigant to injunctive relief, irrespective of the permissive nature of the current language in Section 283. On this matter, this Court has not endorsed Justice McKenna's dicta.

Further marginalizing the significance of *Continental Paper Bag*, Congress in 1952 rewrote the Patent Act,

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[9] CCIA does not believe such a step is necessary because of the case's irrelevance and the intervening rewrite of the Patent Act.

including the provision relevant to *Continental Paper Bag*'s disposition. Congress was undoubtedly aware of *Continental Paper Bag* in 1952, yet it too declined to otherwise endorse *Continental Paper Bag*, as is evidenced by the permissive language that a court "*may* grant an injunction." *See* 35 U.S.C. § 283 (emphasis supplied). *Accord Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (noting discretionary nature of copyright injunctions under 17 U.S.C. § 502). While *Continental Paper Bag* refers in passing to injunctive relief under a 1901 patent statute, it relies upon appeals to "absolute property" to conclude without statutory analysis that "[i]t hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation." *Id.* at 430. Yet *Continental Paper Bag* itself concedes that "[i]t may be said [that previous] cases deal only with the right of a patentee, and not with the remedy . . . And there is no case in this court that explicitly does so." *Id.* at 425. Thus, until *Continental Paper Bag*, the Court had not held injunctive relief to be mandatory, and to the extent that *Continental Paper Bag* so concluded, that conclusion rests on intuition rather than statute.

If one accepts the interpretation that *Continental Paper Bag* mandates injunctive relief, then the case cannot be viewed as binding law. If a patent injunction was statutorily permissive at the time of *Continental Paper Bag*, then its interpretation otherwise was clearly in error, and should be reversed. If *Continental Paper Bag* were correct, however, and an injunction was mandated by statute in 1908, then the decision by Congress in 1952 to make injunctive relief permissive in Section 283 – evidenced by the use of "may" – shows an unambiguous intent to erase the previous standard, and *Continental Paper Bag* along with it. Under either

interpretation, *Contienental Paper Bag* does not control the disposition of this case.

Just as *Continental Paper Bag*'s views on injunctive relief are moot, its rhetoric about the property-like nature of a patent has similarly been eclipsed. Chapter 26 of the Patent Act, which governs ownership and assignment, establishes that for purposes of assignment, and "subject to the provisions of this title," that "patents shall have the attributes of personal property." 35 U.S.C. § 261. Section 261 does not imbue patents with the attributes of personal property – much less *real* property – for purposes other than assignment. A patentee's remedies derive not from Lockean principles, but rather the precise text chosen by Congress, in careful consultation with the patent bar. *See* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* reprinted in *Patent Procurement and Exploitation* 73 (BNA 1963). Thus, it is unquestioned that "[p]atent property is the creature of statute law and its incidents are equally so and depend upon the construction to be given to the statutes creating it and them, in view of the policy of Congress in their enactment." *Crown Die, supra*, at 40. Accordingly, any suggestion by *Continental Paper Bag* that patentees were presumptively entitled to property-like remedies was extinguished in 1952, if it had ever existed.

If this Court should conclude that *Continental Paper Bag*'s relevance was not extinguished in 1952, however, then it should have no qualms about reversing any language that suggests that a district court must issue an injunction upon a finding of infringement. *Continental Paper Bag*'s error arises from its failing to distinguish between intellectual property and real property. A patent is an exclusive right conferred by the Federal Government to "promote the Progress of Science and useful Arts," U.S. Const. art. I,

§ 8, cl. 8, by "reward[ing] manufacturers for their innovation in creating a particular device." *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 34 (2001). *Continental Paper Bag* overlooks the instrumental nature of the patent right created by the Constitution, stating in dicta that "patents are property and are entitled to the same rights and sanctions as other property." *Id.* at 425. Even prior to the 1952 Patent Act, Justice McKenna's *Continental Paper Bag* opinion was criticized as "a radical departure" from constitutional theory. *Special Equip. Co. v. Coe*, 324 U.S. 370, 382 (1945) (Douglas, J., dissenting). "It is a mistake," Justice Douglas wrote, "to conceive of a patent as but another form of private property. The patent is a privilege conditioned by a public purpose." *Id.* (internal quotation omitted).

Nevertheless, *Continental Paper Bag*'s unfortunate dicta continues to perpetuate a myth that, rather than being a bundle of "carefully defined and carefully delimited interests to which the law affords correspondingly exact protections," *Dowling v. United States*, 473 U.S. 207, 216 (1985), intellectual property is actually real property, and that infringement is therefore theft – a proposition which this Court has squarely rejected. *Id.* at 217-18.[10]

Where a rights-holder's interest in preventing infringement of its intellectual property rights "may be

[10] Equating intellectual property to real property dictates a parade of perverse results that run contrary to current law. Under such reasoning, an inventor – not just a manufacturer – could bear strict product liability for a foreseeable misuse of an invention (as opposed to an actual product). Such reasoning could inspire state taxation of intellectual property rights, and could inspire claims of "abandonment" against unused patents and copyrights.

adequately protected by an award of damages for whatever infringement is found," an injunction need not issue. *Campbell, supra* at n.10. Insofar as this Court reads *Continental Paper Bag* to hold that the Federal grant of a patent necessarily endows a rights-holder with a presumptive remedy of injunctive relief, *Continental Paper Bag* is inconsistent with previous holdings of this Court, and therefore should be overruled.

CONCLUSION

In sum, the Federal Circuit's standard for injunctive relief does not operate in a vacuum. In information technology, it provides an inordinately powerful weapon in a landscape of uncertainty. A litany of interrelated phenomena – low quality, portfolio racing, high transactions costs, widespread inadvertent infringement, and opacity of patent information – make producers in this sector exceptionally vulnerable to claims of patent infringement. Automatic injunctive relief magnifies their exposure, making those producers that contribute the most value to the marketplace the most vulnerable to catastrophe.

Respectfully submitted,

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF *AMICI CURIAE* OF MARTIN COOPER, RAYMOND DAMADIAN, LEROY HOOD, NATHAN MYHRVOLD, ROBERT RINES, BURT RUTAN, JAMES WEST, 14 OTHER INVENTORS, AND INTELLECTUAL VENTURES IN SUPPORT OF RESPONDENT

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INTEREST OF *AMICI CURIAE*

Amici are inventors of many of the most important technological advances in modern times.[1] Some are members of the National Inventors Hall of Fame, whose inductees include just over 200 of the top inventors with a United States patent, from the eighteenth century to today. Others are leaders in their respective industries. They all understand that the patent system has played a vital role in this country's unparalleled tradition of innovation, and that the right to injunctive relief has been—and remains—necessary to protect a patentee's right to exclude. They are concerned that a contrary decision by this Court will stifle innovation by devaluing the incentive to invent.

The contributions of some of the *amici* are described below. Martin Cooper invented the cell phone. Dr. Raymond Damadian, a Hall of Fame member, invented magnetic resonance imaging (MRI). Dr. James Fergason, another Hall of Fame member, invented liquid crystal displays (LCDs). The inventions of Dr. Leroy Hood, a co-founder and president of the non-profit research center Institute for Systems Biology, include the DNA sequencer and other tools that have provided the technical foundations for molecular biology. Dr. Paul MacCready invented, among other things, the first human-powered flying machine. His many awards include Engineer of the Century from the American Society of Mechanical Engineers. Dr. Robert Rines, the inventor of sonar, high-definition radar, and the sonogram, among other innovations, is also a member of the Hall of Fame. Burt Rutan is one of the world's preeminent aircraft designers. His SpaceShipOne won the Ansari X prize in 2004 by becoming the first reusable private aircraft to travel into

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[1] No counsel for a party authored this brief in whole or in part, and no person other than *amici curiae* and their counsel has made a monetary contribution toward its preparation or submission. Petitioners and respondent have filed blanket letters of consent to file with the clerk.

space. Hall of Fame member James West, who holds over 200 patents, invented the modern-day microphone, called the electret microphone.

Dr. Nathan Myhrvold, the former Chief Technology Officer of Microsoft, was a postdoctoral fellow in quantum physics working in the laboratory of Dr. Stephen Hawking before becoming an entrepreneur. He is co-founder and CEO of Intellectual Ventures. Intellectual Ventures believes that innovation by itself is a fundamental goal. Intellectual Ventures provides inventors with necessary research tools and funding, develops inventions internally, and buys and licenses inventions from others.

A full list of the *amici* appears in the Appendix.

SUMMARY OF ARGUMENT

The incentive to innovate is fundamental to the patent system. The Constitution guarantees, and Congress has provided, a patent regime that rewards the first person to invent. From the Constitutional Convention itself, our nation has embraced the concept that a patent's right to exclude encourages people to discover new and useful ideas. Our nation has prospered, and continues to prosper, in no small part because of independent inventors who acted on those incentives like Morse, Edison, and Farnsworth. For them, no less than for present-day independent inventors, Congress created a system that encourages disclosure to the public of new and useful ideas in exchange for a right to exclude for a limited term, over the life of which the inventor is entitled to prevent others from using the patented invention.

The right of exclusivity means nothing without injunctive relief. Inventors and their supporters rely on strong patent protection, including the availability of injunctive relief, when they undertake the often lengthy and costly work necessary to create, test, and disclose an idea. Without the right to enjoin an infringer, a patentee could not protect its right to exclude, the value of a patent would diminish, less

investment would flow into innovation, and many inventions would never be created. Petitioners and their *amici* want to maintain injunctive relief—but only for themselves and companies like theirs. They want such a rule because while they value their own patents, they fear the independent inventors who assert their rights. The value of the idea itself, however, does not and should not differ based upon who owns the patent or how owners choose to exercise their property rights. Petitioners seek nothing less than a dramatic departure from longstanding precedent.

Petitioners' concerns about patent quality are misplaced. Such an issue is squarely within the province of Congress, not this Court. Congress crafted a carefully-calibrated system, weighing the incentive to innovate against public access. Moreover, both the patent holder and the infringer can deny each other a benefit. And even by its own terms, petitioners' "solution" of devaluing the right to exclude for *all* patents is far worse than the supposed "problem" of poor patent quality for *some* patents. Devaluing the right to exclude promotes infringement because the alternative to the right to injunctive relief is compulsory licensing, something Congress has long rejected. Many infringers would find it economically rational to infringe and risk a court-determined license fee rather than negotiate with the patent holder. This Court should not upset a settled regime that has played such a fundamental role in driving this nation's long and historic growth.

ARGUMENT

I. PATENT EXCLUSIVITY PROMOTES PROGRESS

A. The Constitution Gives Patent Holders the Right to Exclude in Order to Reward Inventions

On August 22, 1787, John Fitch tested a new invention in Philadelphia: a mechanically-powered ship, a steamboat, that could travel against the current. John Fitch, *The Autobiogra-*

phy of John Fitch 178 (Frank D. Prager ed., 1976); *see also* Andrea Sutcliffe, *Steam: The Untold Story of America's First Great Invention* xi, 103-04 (2004); Harold Evans, *They Made America* 22-23 (2004). By happenstance, the Constitutional Convention met in Philadelphia that same summer. Recognizing the benefits that would come from demonstrating his steamboat to so distinguished an audience, Fitch made sure the delegates knew about the test. Many attended, either as guests aboard ship or watching from shore. Sutcliffe, *Steam*, at 49; Evans, *They Made America*, at 22-23.

When the experiment succeeded, Fitch gloated: "There was very few of the convention but called to see it, and [I] do not know whether I may except any but General Washington himself. . . ." Fitch, *Autobiography*, at 179. "Governour Randolph with several if not all of the Virginia members were pleased to give it every countenance they could." *Id.*[2] One delegate, William Samuel Johnson, wrote Fitch the next day:

> Dr. Johnson presents his compliments to Mr. Fitch, and assures him that the Exhibition yesterday gave the Gentlemen present much satisfaction. He himself, and he doubts not the other gentlemen will allways be happy to give him every continance & encouragement in their Power, which his Ingenuity and industry entitles him to.

Id.

On August 18—only four days before Fitch's test—both James Madison and Charles Pinckney had proposed for the first time a patents provision for the Constitution. 2 *Records of the Federal Convention of 1787* 324-25 (Max Farrand ed., 1911). The Convention unanimously referred the issue to the Committee of Detail the same day. *Id.* at 321-22. Two weeks later, on September 5, the Convention unanimously approved the Patents Clause, adopting language that remained

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[2] Later that year, Virginia gave Fitch the exclusive navigational right to steamboats in the Commonwealth. Sutcliffe, *supra*, at 51. It joined Delaware, New York, New Jersey, and Pennsylvania. *Id.* at 38, 73.

unchanged in the final version of the Constitution: "To promote the progress of science and useful arts by securing for limited times to Authors and Inventors the *exclusive right* to their respective writings and discoveries." *Id.* at 505 (emphasis added).

The right of exclusivity is fundamental to patents. Exclusivity allows inventors to profit from their discoveries by rewarding those who first disclose their ideas to the public. "The prize of an exclusive patent falls to the one who had the fortune to be first." *Radio Corp. of Am. v. Radio Eng'g Labs.*, 293 U.S. 1, 3 (1934) (Cardozo, J.); *see also Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980). As Justice Story recognized, "[t]he inventor has, during this period, a property in his inventions: a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession." *Ex parte Wood*, 22 US. 603, 608 (1824).

The Constitution reflects a considered judgment that the best way "to promote the Progress of Science and useful Arts" is to give inventors one thing—the right to exclude for a limited time. The Founders understood that exclusivity was "a reward, an inducement, to bring forth new knowledge." *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966) (discussing the views of Thomas Jefferson). This Court continues to recognize that exclusivity gives inventors the incentive to create and innovate. *See, e.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki*, 535 U.S. 722, 730 (2002) ("The patent laws 'promote the Progress of Science and useful Arts' by rewarding innovation with a temporary monopoly."); *Eldred v. Ashcroft*, 537 U.S. 186, 216 (2003) ("'[p]atents are not given as favors . . . but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention'") (alteration in original) (quoting *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964)).

This incentive to innovate led Abraham Lincoln—the only U.S. President named an inventor on a patent—to declare that "the introduction of Patent laws" was one of four discoveries "of peculiar value, on account of their great efficiency in facilitating all other inventions and discoveries." Abraham Lincoln, *Second Lecture on Discovery and Inventions* (1859), in 3 *Collected Works of Abraham Lincoln* 361 (Roy P. Basler ed., 1953). The others were writing, printing, and the discovery of America. *Id.* Lincoln concluded that the patent system "secured to the inventor, for a limited time, *the exclusive use* of his invention; and thereby added the fuel of *interest* to the *fire* of genius, in the discovery and production of new and useful things." *Id.* at 363 (first emphasis added). The patent system of Lincoln's time, just like the pre-revolutionary English patent system and the patent regime of today, encompassed the patentee's right to enjoin an infringer.

B. Exclusivity Means Nothing Without Injunctive Relief

If the right to exclude means anything, it must include the right to "restrain others from manufacturing, using, or selling that which [the patentee] has invented." *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917); *see also* Act of Apr. 10, 1790, ch. 7, § 1, 1 Stat. 109 (granting inventors "the sole and exclusive right and liberty of making, constructing, using, and vending to others to be used"); 35 U.S.C. § 154 (granting the patent holder "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States").

1. The principle that the right to an injunction generally follows a finding of infringement is longstanding. In *Livingston v. Van Ingen*, 9 Johns. Cas. 507 (N.Y. Sup. Ct. 1812), the Supreme Court of New York had to decide whether to issue an injunction in a state patent case. Chancellor Kent traced

the history of injunctions in patent cases and concluded, "It is impossible, in any cause, to produce cases more in point or more controlling; and they put the authority and duty to grant an injunction, in a case of clear statute right, beyond contradiction." 9 Johns. at 586. "There are many other cases in the *English* chancery, to the like effect." *Id.*; *see also id.* at 587 ("[T]he law has been settled, in *England*, for the last seventy years at least."). Chancellor Kent noted that the law in the United States did not differ from the English tradition: "[U]nder the patent law of congress, [federal courts] have equally protected the right by injunction." *Id.* at 587. This Court emphasized the importance of Chancellor Kent's *Livingston* opinion when Justice Harlan wrote for the Court that *Livingston* "is entitled to great weight" because it is "an expression of opinion by an eminent jurist as to the nature and extent of rights secured by the Federal Constitution to inventors." *Patterson v. Kentucky*, 97 U.S. 501, 509 (1878).

From 1790 until 1819, federal courts only had equity jurisdiction in patent cases between citizens of diverse States. *Livingston v. Van Ingen*, 15 F. Cas. 697 (Livingston, Circuit Justice, C.C.N.Y. 1811) (No. 8420). As the Reporter's Note to that case stated, Congress later rectified "this defect of jurisdiction" by passing the Patent Act of 1819, 3 Stat. 481. 15 F. Cas. at 700. Thus, the 1819 Act merely fixed a jurisdictional anomaly by giving federal courts the power to issue injunctions in all cases. *Cf. Root v. Railway Co.*, 105 U.S. 189 (1881) (tracing the history of the equity provision). Where courts, whether federal or state, had the *power* to issue injunctive relief in patent cases, they did so as a matter of course.

The Federal Circuit below correctly stated this well-established "general rule . . . that a permanent injunction will issue once infringement and validity have been adjudged." *MercExchange, L.L.C. v. eBay Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005). While the right to an injunction in patent cases is not absolute—and thus a federal court "may" grant an injunction, 35 U.S.C. § 283—the historical rule has been that

injunctions follow a judgment of infringement of a valid patent, except in those narrow circumstances where an injunction would adversely affect the public interest. As Professor Chisum writes, "for more than two hundred years, the result has almost always been that, after there has been a final determination of infringement, the prevailing patent owner will be granted a[n] injunction. . . . ." Donald S. Chisum et al., *Principles of Patent Law* 1342 (3d ed. 2004).

2. Petitioners' *amici* argue that because copyright law does not have a general right to injunctive relief, neither should patent law. *See, e.g.*, American Innovators' Alliance Br. at 19. But the *amici* are mistaken. Injunctions *do* normally issue, except for one situation peculiar to copyright law that only confirms the general right to injunctive relief in patent cases. As this Court observed in *Eldred v. Ashcroft*, "patents and copyrights do not entail the same exchange." 537 U.S. at 216. Unlike patent law, "copyright gives the holder no monopoly on any knowledge." *Id.* at 217. "A reader of an author's writing may make full use of any fact or idea she acquires from her reading. The grant of a patent, on the other hand, *does prevent full use by others* of the inventors' knowledge." *Id.* (emphasis added) (internal citations omitted).

Unlike patent law, copyright law represents a balance between spurring creation of works and protecting the free expression and exchange of ideas. *Id.* at 218-20. Copyright law, for example, observes a "fair use" principle which is both a constitutional necessity and a creature of statute. Fair use allows appropriation of a work for "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research." 17 U.S.C. § 107; *see also Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575-76 (1994); *Harper & Row, Publishers, Inc. v. Nation Enters.* 471 U.S. 539, 560 (1985). Fair use has been part of copyright law "[f]rom the infancy of copyright protection." *Campbell*,

510 U.S. at 575. Patent law, by contrast, has no equivalent of fair use. Infringers are liable *whenever* they use the ideas embodied in a patent's claims.

Many of petitioners' *amici* cite *Campbell v. Acuff-Rose*, 510 U.S. at 569, as authority for a court's discretion to enter an injunction in the copyright context. But *Campbell* shows why injunctions in copyright cases are different from those in patent cases. In *Campbell*, this Court recognized the need for judicial discretion because "the fair use enquiry often requires close questions of judgment as to the extent of permissible borrowing in cases involving parodies." *Id.* at 578 n. 10. The Court then quoted Judge Leval's article on fair use, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1132 (1990), for the principle that while in the "'vast majority of cases, [an injunctive] remedy is justified because most infringements are simple piracy,' such cases are 'worlds apart from many of those raising reasonable contentions of fair use.'" 510 U.S. at 578 n. 10 (alteration in original). Thus, where fair use is a concern, courts have discretion to balance the interests of the copyright holder with the public interest in free expression. Because a patentee's right to exclude does not contain an equivalent "fair use" exception, concerns over the stifling of free expression are irrelevant. Patent infringers, unlike copyright infringers who argue fair use, have no reasonable basis to claim a right to appropriate patented material. Patent cases are like the "vast majority" of copyright cases where an injunctive remedy "is justified"—the infringer's behavior is "simple piracy."

C. The Patent System Rewards *Disclosure*, Not Use

Petitioners and their *amici* argue vigorously that courts should be less willing to issue injunctions if the patent holder has not "used" the patent. As a preliminary matter, patent holders can "use" the patent by licensing—a result that allows the public access to the idea. But more fundamentally, their

proposed rule would upend the "carefully crafted bargain" that Congress has embodied in the patent system—granting a limited right to exclude others from practicing the invention in exchange for *disclosure of the idea* to the public. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150 (1989). Neither this Court nor Congress has ever conditioned a patent right upon "use." Rather, "the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure." *Id.* at 151.

This Court consistently has held that "[t]he disclosure required by the Patent Act is 'the *quid pro quo*' of the right to exclude." *J.E.M. Ag. Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124, 142 (2001) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974)). The patent holder receives the right to exclude for a limited time "on condition that he make *full disclosure for the benefit of the public* of the manner of making and using the invention." *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945) (emphasis added). *See also Festo*, 535 U.S. at 736 ("[E]xclusive patent rights are given in exchange for disclosing the invention to the public."); *Graham v. John Deere Co.*, 383 U.S. at 11 (noting that Jefferson's "inherent problem was to develop some means of weeding out those inventions which would not be disclosed or devised but for the inducement of the patent"). For this reason, courts can declare a patent claim invalid if it fails to adequately disclose the invention. *See infra* Part III.A.2.

The patent laws, by contrast, *do not* make a patent's strength contingent upon use. "This Court has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent." *Special Equip. Co. v. Coe*, 324 U.S. 370, 378-79 (1945) (citing, among other cases, *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908)). Moreover, "Congress has frequently been asked to change the policy of the statutes as interpreted by this Court . . . if the patent is not used within a specified

time, but has not done so." *Special Equip.*, 324 U.S. at 379; *see also infra* Part III.B.2. By advocating a "use" restriction on the availability of injunctive relief, petitioners and their *amici* suggest that invention is less important than commercialization. However, their position ignores the patent bargain of *disclosure* for exclusivity. Thus, *Continental Paper Bag* is no anomaly. Rather, it represents the judgment of both this Court and Congress that a patent's set of legal privileges is contingent upon disclosure, not use.

II. INVENTORS AND INVESTORS HAVE RELIED ON THE RIGHT TO EXCLUDE BY INJUNCTIVE RELIEF, REGARDLESS OF WHETHER THE PATENT IS "USED"

Inventors and their supporters rely on strong patent rights —including the right to stop a defendant from infringing by means of injunctive relief—to facilitate innovation and development of their ideas. Changing the longstanding standard for granting injunctions devalues patents by diminishing the right to exclude, and thereby undermines the incentives for inventors to innovate, and for inventors and their investors to buy, sell, and trade their patent rights. A patent, with its right to exclude, "is a property right; and like any property right, its boundaries should be clear." *Festo*, 535 U.S. at 730-31. "This clarity is essential to promote progress, because it enables efficient investment in innovation." *Id.*; *cf. Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (noting "the importance of uniformity in the treatment of a given patent"). Petitioners' proposed rule, which calls into question whether and when a patent holder can enforce the right to exclude, lacks clarity. By eroding clarity, petitioners' proposed rule undermines the incentives for investment in innovation. It diminishes a patent's value based upon factors external to the patent itself.

A. Independent Inventors and Investors Have Counted on Patents to Protect Their Work and to Provide the Incentive to Develop Their Ideas for Two Centuries

Historically, strong patent rights have given inventors and their financial backers the incentive to create, test, and disclose ideas to the public. Before John Fitch tested his steamship in August 1787, he had to raise money after a series of early experiments on the engine did not work as well as intended. *See* Fitch, *supra*, at 173-75. Fitch, desperate to see if his idea would work, pleaded with his investors for more money. He pointed to a previous land patent that the Continental Congress had granted to a rival who was also trying to build a steamship. "I am justly entitled to the reward," Fitch told his supporters. "[W]hoever will patronize my scheme, will lay out their money on as sure a ground as the Honour of our Empire." *Id.* at 177. If he did not complete his steamship, he went on, he would make sure that the public knew why: "The Steam Boat has been a matter of great speculation and discourse, and I think my duty to inform the public that I am forced to quit it purely for the want of resources." *Id.* Fitch got his money.[3]

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[3] Fitch and his investors never made their money back. Despite his efforts, he did not receive a land patent from the Continental Congress. And although he received one of the first patents granted under the Constitution for the steamship, his rival, John Rumsey, received a patent on the steamship as well, with the same priority date, because of disputes about who was first to file. Sutcliffe, *supra*, at 112-15. Thus, neither Fitch nor Rumsey had patent exclusivity. For Fitch especially, his venture failed because he lost patent exclusivity. *Id.* at 119 ("Shortly after Jefferson gave Fitch and Rumsey patents dated the same day, most of the remaining Steamboat Company shareholders quit."). In 1793, "[b]ecause the Rumsey-Fitch priority battle was still fresh in the lawmakers' minds," Congress changed the law so that the person "who was first to invent, not first to file, would receive the patent." *Id.* at 118.

This same story has repeated itself throughout American history. In 1831, Cyrus McCormick developed his reaper, one that could harvest fields more quickly and efficiently than previous means. Although "the first reaper did not cut the grain perfectly," McCormick showed it to the public the next year. William T. Hutchinson, *Cyrus Hall McCormick* 84 (1930). An onlooker told him "that the machine was worth $100,000," but McCormick would have been "willing to sell all rights in his reaper for half that amount." *Id.* at 87. "Nevertheless before the harvest was over he was dreaming of one million dollars as the fruit of his invention." *Id.* In 1833, as he tested his new reaper in front of even more people, he decided to apply for a patent. *Id.* at 91.

Samuel Morse was able to develop his telegraph because financial backers saw in it the promise of financial rewards. After witnessing an early demonstration of Morse's experiments in 1837, one of his investors "furnished Morse with the means for an experiment on a larger scale." John Trowbridge, *Samuel Finley Breese Morse* 82 (1901). Two years earlier, Morse was so poor that he could not afford to buy simple and affordable instruments to continue his tests. *Id.* at 86. Concurrent with receiving outside investment, Morse "sent to Washington a preliminary request for a patent." Carlton Mabee, *The American Leonardo* 195 (1943); *see also id.* at 193-94. Later, Morse and his partners entertained offers to sell the patent rights, although he did not sell. *Id.* at 284. Instead, he licensed his invention to companies wishing to develop telegraph lines. *Id.* at 286-88. When one of his licensees extended a line farther than the contract permitted by using a rival telegraph technology, Morse sued for patent infringement. Morse claimed that his patent encompassed the rival technology. *Id.* at 296-300. Morse prevailed, both on the validity of his patent and on infringement. The court granted injunctive relief. *Id.* at 307-08.

Thomas Edison said, "I'm an inventor. . . . I measure everything I do by the size of the silver dollar. If it don't come

up to that standard then I know it's no good." Matthew Josephson, *Edison: A Biography* 283 (2d ed. 1992). In his early career, Edison, "[l]ike most young inventors . . . had technical know-how but lacked financial resources for experiments and patent expenses. . . . [H]e found local capitalists and corporate officials who were willing to support his inventive efforts." Paul Israel, *Edison: A Life of Invention* 41-42 (1998). The investors who funded Edison's first patent, an electronic vote recorder, lost their money when the invention was a business failure. *See* Israel, *supra*, at 41-42. In those early years, some of his ideas did not come to fruition because of a lack of capital. *Id.* at 43-44. As Edison became successful, his income derived in large part from "payment[s] for some important patent." Josephson, *supra*, at 284; *see also* Israel, *supra*, at 102, 108, 136, 148. Edison often relied on "investors . . . [to] purchase the patent rights and market the inventions." Israel, *supra*, at 149. He and his investors founded a "patent-holding company" for his electric light patents. Josephson, *supra*, at 291. After his company prevailed in protracted patent litigation, Edison's company merged with one of the primary infringers of the incandescent light patents to form General Electric. *See id.* at 358-64.

Independent inventors in the twentieth century also have relied on strong patent protection to discover, experiment, and create. In 1922, 14-year old Philo Farnsworth had an idea that would lead to the creation of television. To translate that idea into a patent took eight years and multiple rounds of investment. Paul Schatzkin, *The Boy Who Invented Television: A Story of Inspiration, Persistence and Quiet Passion* 18-19, 32-47, 62-65, 75-78, 93-94 (2002). One of the first images that the television produced was a dollar sign ($), as Farnsworth broadcast that image to the investors he was trying to lure. *Id.* at 63. When his patents issued, Farnsworth and his investors were "jubilant . . . . [T]hey were confident they had the means to find licensees who would pay royalties for the use of those patents." *Id.* at 93. After receiving his

patents, Farnsworth's company offered non-exclusive licenses to those who wanted to use the technology. *Id.* at 100, 167. The largest company at the time, RCA, contested the patents, and paid a royalty only after the company realized that it would not be able to sell televisions without obtaining a license. Elma G. Farnsworth, *Distant Vision: Romance and Discovery on an Invisible Frontier* 138 (1989). Likewise, George Washington Carver used the patent system to capture the value of his innovations through finding investors to back his agricultural and industrial ideas. Linda O. McMurry, *George Washington Carver: Scientist and Symbol* 188-90 (1981).

The *amici* on this brief have similar stories. For example, Raymond Damadian, the inventor of MRI, could not find funding for his invention. The New York City Health Research Council denied Damadian's request for research funds, calling the prospect of a full-body scan "meaningless." Evans, *They Made America*, at 445. Companies refused to fund the idea because they concluded "it was not possible to build a full-body scanner." *Id.* at 446. Although he had received a patent in 1974, his struggle for funding continued as companies still did not see the commercial value of the invention. *Id.* at 448-49. Dāmadian then formed his own company. *Id.* at 451.

B. Independent Inventors and Their Investors Rely on the Patent's Right to Exclude to Protect Their Property

The process of innovation, creation, and development is no less important today than it has been historically. Individuals and small entities remain "a significant source of innovative products and services." Wendy H. Schacht & John R. Thomas, *Patent Reform: Innovation Issues*, CRS Report for Congress, at CRS-10 (July 15, 2005). Independent inventors, much more than their corporate counterparts, depend on patents. Experimentation takes time and money.

As was true in the nineteenth century, many independent inventors still raise the necessary funding by selling interests in their ventures to financial backers willing to take a risk on an unproven, often still-unpatented, idea. *Cf. Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) ("Permitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention."). These inventors join laboratories that give them access to equipment and resources in exchange for a share of the company. They create business plans in order to convince venture capitalists to invest in an unproven product. Or they receive backing from companies that encourage the development of ideas by paying them to create, in exchange for an ownership interest in the idea. *See generally* Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry*, 83 Tex. L. Rev. 961, 974-76 (2005) (discussing the role of patent rights in facilitating investment in the software industry); Richard S. Gruner, *Corporate Patents: Optimizing Organizational Responses To Innovation Opportunities And Invention Discoveries*, 10 Marq. Intell. Prop. L. Rev. 1, 11 (2006) ("With one or more patents covering a key bit of technology, innovators can promise investors a stake in a particular, exclusive marketing opportunity as bounded by the technology controlled by the patent rights and the patent holder's ability to exclude others from this opportunity through the exercise of those rights.").

In all these examples, both the inventor and the investor rely on the patent system to protect their investment of time and money. Their goal is to patent, to receive the right of exclusivity in exchange for full disclosure. Indeed, not only are inventors with the backing of venture capitalists more likely to patent, it is more likely that the resulting patent will be valuable. *See* Samuel Kortum & Josh Lerner, *Assessing the Contribution of Venture Capital to Innovation*, 31 RAND J. Econ. 674, 674-75, 689-91 (2000). Often inventors and their investors proceed without any certain knowledge that

they will ever "use" the patent in the sense that they will bring the product the market. Instead, they rely on the certainty that if they are first to disclose new ideas, they will win the temporary right to exclude others from using the invention and can "use" the patent by developing it, marketing it, or licensing it in any number of ways. *Cf.* Mark A. Lemley, *Reconceiving Patents In The Age Of Venture Capital*, 4 J. Small & Emerging Bus. L. 137, 143 (2000) ("Venture capitalists love patents . . . ."). Inventors and their early backers can then choose to develop the idea themselves or sell their rights to a host of other groups—universities, large corporations, pre-product companies, non-practicing entities, or invention-oriented companies. Each of them may pursue a slightly different strategy to capture the value of the patent. Some may choose to practice it, some may choose to market it, and some may choose to license it. But the value of the idea itself does not and should not differ based upon who owns the patent, or how owners choose to exercise their property rights.

A patent—like any piece of property—often changes hands several times as companies explore different ways to make money from and "use" the original, novel idea. *See, e.g.*, Don Clark, *Investors See Promise in Large-Scale Public Patent Auctions*, Wall St. J., March 9, 2006, at B1. Venture capitalists, angel investors, corporations, and universities require strong intellectual property protection if they are to invest in a small company whose only asset is an idea. *See, e.g.*, Matthew J. Dowd et al., *Nanotechnology and the Best Mode*, 2 Nanotechnology L. & Bus. 238, 252 (2005) (noting that before venture capitalists invest in small nanotechnology start-ups, they try to determine the strength of the company's patents). While some of these start-up companies succeed beyond any reasonable expectation, others encounter more difficulty for a host of reasons—the test results point in a different direction, another company has entered the same market, industry innovation has outpaced the invention, the

market is not ready for the idea, or the invention no longer serves a market need. Ideas that fail in the market when first attempted, like the MRI, often succeed subsequently when market and technological factors mature.

Investors recognize such pitfalls, yet still risk their capital. They do so, of course, because of the possibility that the company will succeed in spite of the odds. Their ability to profit from success depends on their ability to enjoy the same legal protection for innovative ideas as anyone else, regardless of how or whether they "use" the patented invention. They take comfort in knowing that the patent itself has value —value that can help them recoup the investment. *Cf.* Lemley, *supra*, at 144 (noting a study "suggesting that there is a strong positive relationship between venture capital financing and patenting").

The proposals of petitioners and their *amici* to limit the right to obtain injunctive relief severely undermine the economic incentives of independent inventors. The right to injunctive relief is integral to a patent's value. Economically rational investors will be less willing to invest in companies with patented technology where the right to exclude is less valuable for them than it is for others. In a very direct way, then, the strength and predictability of patent laws in this country correlates to the amount of investment in innovative businesses and industries.

C. Corporate Strategies For Use of Patents Vary

Firms use patents differently. How a company values patents and how it uses them often drives its corporate position about issues such as those before the Court in this case. Broadly speaking, corporate patent strategies divide into three categories.

First, for many companies, patents are a vital tool in protecting and driving innovation in the company's products. These firms range across industries and file patents to ensure that they have the exclusive right to the idea they created.

Second, for some firms, patents are valuable primarily as defensive tools. Many large corporations have "acquire[d] large numbers of patents . . . for use only to keep others' patent threats at bay." *A Market For Ideas*, The Economist, October 22, 2005, at 4. When defensive use is a company's objective, patent exclusivity normally is not important. The goal of defensive patenting is to reserve patent assertions for counterclaims against infringement claims by others.

"Defensive" use is as self-serving as any other exploitation of patents. Companies with large defensive portfolios can infringe with impunity the patents of any company with products on which the defensive portfolio reads. Their goal is to invent sufficiently to be able to freely appropriate the inventions of others in their own products. In some cases, companies with large defensive portfolios enter into a formal cross-license agreement with each other. Cross-licenses create a "club" of entrenched competitors, making entry by start-ups or new entrants more difficult. *See* Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, in *Innovation Policy and the Economy* 119, 130-33 (Adam B. Jaffe et al. eds., 2001); *see also id.* at 133 (describing an "IP for IP" policy whereby "powerful firms . . . establish private legal regimes that favor themselves and make it more difficult for upstarts to challenge the dominance of current market leaders"). In effect, the value that these companies derive from their patent portfolio stems from being able to infringe other patents.

Third, many companies simply do not value patents or find an important role for them in their business model. Their market value may derive instead from economies of scale, network effects, customer service, trademark or brand value, copyrights, the value of the goods they sell, first-to-market advantages, or other factors unrelated to patents. They do not own a large patent portfolio and, in large measure, see patents only as a hindrance to their business model. They are the modern-day equivalent of the companies that copied Morse's

telegraph or Edison's light bulb. In this case, for example, eBay holds a sum total of 11 issued U.S. patents. *See* USPTO database inquiry, available at http://patft.uspto.gov/netahtml/search-bool.html (by entering "eBay" into the "assignee name" field.) As a comparison, the inventors on this brief alone own hundreds of patents, a company like Qualcomm owns over 1,500, and General Electric owns tens of thousands. *See id.* (by entering the relevant names in the search fields).

This strategy is not necessarily wrong from a business perspective. eBay, for example, is tremendously successful today because it was the first auction site to gain a large following and, partly through the network effect, has become "one of the largest online marketplaces." Pet. Brief at 3. One risk of being first to market, however, is infringing the patent rights of others. MercExchange filed its first patent in April 1995. eBay did not even "launch[ ]" until September 1995. *Id.* Now, however, eBay wishes to revisit its trade-off between being first to market and first to invent, and reduce its exposure from rushing to market. But denigrating the right to exclude devalues the rights of those who invented first and encourages other companies to ignore patents.

Many of petitioners' *amici* either use patents defensively or see patents only as a hindrance. Those companies that use patents defensively fear patent holders who assert their patent rights and are not intimidated by the infringer's large portfolio. The infringer with a defensive use strategy wields its patent portfolio as a club against those plaintiffs who threaten to enforce their patent rights. *See* Gideon Parchomovsky and R. Polk Wagner, *Patent Portfolios*, 154 U. Pa. L. Rev. 1, 26-27 (2005) ("[T]he defensive patenting theory holds that firms acquire patents to ward off possible lawsuits by using the patents as bargaining chips with potential plaintiffs."). This tactic works against many potential plaintiffs, especially other large companies who also use patents defensively, but it is less successful against independent inventors and others whose

businesses are not dependent on products that may infringe their rivals' patent portfolio. Because defensive use does not work against all patent holders, these companies seek to change the rules and decrease their potential exposure for infringing a valid patent by diminishing the right to exclude.

Some *amici*, like Intel, Micron, and IBM, hold a vast number of patents, which they also use. *See* Anne Krishnan, *IBM Tops in Patents in 2005*, The Raleigh News and Observer, Jan. 10, 2006, at D1. Many of them recognize the importance of injunctive relief—so long as they are the ones seeking it. They would have this Court create a balancing test that turns on factors that correspond to their operations, thereby enabling themselves to obtain injunctive relief while making it more difficult for independent inventors to obtain injunctions against them. The factors these *amici* propose for consideration include whether the patentee makes a product; whether a competitor's unauthorized use would reduce the patentee's market share; whether patentees grant exclusive licenses to their patents; and even whether the patentee's business depends on providing partners with exclusive access to a patented invention. *See* IBM Brief at 16; Research In Motion Brief at 11; Time Warner *et al.* Brief at 28; Yahoo! Brief at 22-23; American Innovators' Alliance Br. at 22.

Not only would such a customized rule diminish the incentive to innovate, it is inimical to the independent inventor, amounting to a "Heads, I win; tails, you lose" system for the petitioners and their *amici*. They and other companies like them would have the ability to obtain injunctions on a routine basis; independent inventors, by contrast, would not. What they seek is nothing less than institutionalized unfairness, tilting the system to reward behavior that devalues patent rights.

Petitioners' *amici* complain of "strategic" behavior by patentees. *See, e.g.*, Yahoo! Br. at 22. But their own conduct is just as "strategic" as that of any other corporation. For exam-

ple, Yahoo recently purchased patents and asserted them against one of its chief rivals, Google. The parties settled as Google was preparing its planned initial public offering. *See* Verne Kopytoff, *Google Settles 2 Disputes Over Patent Infringement; Yahoo To Accept 2.7 Million Shares Of Its Rival's Stock*, The San Francisco Chronicle, August 10, 2004, at C1 ("Google would have been under more pressure to deal with this in the run-up to the IPO.") (internal quotations omitted). Yahoo's rule would allow it to purchase patents from another party, assert them in litigation, and retain the right to injunctive relief. The rule for everyone else should be no different. The right to exclude should not depend on the size or resources of the patentee, nor on which strategy the patentee decides to pursue in capturing the value of its intellectual property (unless, of course, the patent holder has engaged in patent misuse under 35 U.S.C. § 271(d)). Rather, as a general rule, the injunctive remedy should be available to all who have proven infringement of a valid patent.

III. PETITIONERS' ARGUMENTS ARE MISDIRECTED AND WOULD LEAD TO COMPULSORY LICENSING

A. Petitioners' Critique of the Patent System is Misplaced, Overbroad, and Invalid

Petitioners and many of their *amici* not only denigrate the right to exclude, but also critique the patent system more generally. Their criticism is off the mark for four distinct reasons.

1. Patent reform is an issue for the Legislative and Executive Branches, not for this Court. Petitioners and their *amici* seek a fundamental change in patent policy, a change that turns on precisely the kind of weighing of interests and gauging of consequences best left to Congress. This Court has recognized the importance of leaving decisions about alteration of the patent system to Congress. "[C]ourts must be cautious before adopting changes that disrupt the settled

expectations of the inventing community . . . . The responsibility for changing [patent doctrine] rests with Congress. Fundamental alterations in these rules risk destroying the legitimate expectations of inventors in their property." *Festo*, 535 U.S. at 739.

Questions concerning the efficacy of the patent system or the resultant quality of issued patents are legislative matters. Congress has created a system to enforce intellectual property rights—one that consistently values disclosure above use—and the respondent has pursued remedies under that regime. As this case shows, reasonable parties may differ on which policies best encourage innovation. But the "pull, haul, and trade" of patent reform is an issue squarely within Congress's prerogative. *Johnson v. DeGrandy*, 512 U.S. 997, 1020 (1994). Any change of this magnitude, so dramatically and pervasively affecting the incentives to innovate, should not be implemented by judicial fiat.[4]

2. Congress has crafted a system to ensure that inventors may obtain and then enforce patents only if they disclose new, useful, and non-obvious ideas. That system places substantial burdens on inventors before they ever reach the point of seeking injunctive relief. The statutory requirements for issuance are exacting. The claimed invention must be novel (35 U.S.C. § 102), useful (35 U.S.C. § 101), and non-obvious (35 U.S.C. § 103). Vague ideas are not patentable; inventors must disclose their inventions with sufficient detail to enable others to make use of them without undue experimentation.

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[4] Petitioners cite *State Oil v. Khan*, 522 U.S. 3 (1997), as an example of this Court overturning a longstanding precedent in a field subject to congressional oversight. But *Khan* was specifically limited to antitrust. *Id.* at 20. This Court has no similar rule regarding patent law, and indeed none is justified. Congress shows no reluctance to evaluate proposals for patent reform, such as H.R. 2795, a sweeping patent reform bill introduced last year. See H.R. 2795, 109th Congress (1st Sess. 2005). Moreover, on a policy level, the reasons justifying injunctive relief now are just as strong as they have been historically. *See supra* Parts I and II.

The specification must have a written description of the invention that explains how to make and use it cogently enough to enable one skilled in the art to practice it, and must also disclose the inventor's judgment about the best mode of carrying out the invention. 35 U.S.C. § 112; *see also Markman*, 517 U.S. at 373. These requirements—called written description, enablement, and best mode—implement the bargain embodied in the patent system: full disclosure in exchange for an exclusive right. Patentability is not concerned with whether inventors seek to mass produce their inventions or use them at all, but instead whether their disclosure will enable the public to make productive use of them.

Inventors often must turn to the court system to obtain the remuneration owed to them by infringers. The decision to litigate over a patent is not an easy one. Success or failure rarely turns solely on the plaintiff's ability to prove infringement. In virtually every case, the defendant attacks the validity or enforceability of the asserted patent on any number of grounds—obviousness, anticipation, the on-sale bar, written description, enablement, best mode, and inequitable conduct, to name a few. Even after proving infringement of a valid and enforceable patent, damages can be limited or completely barred because of any of the following missteps by the patentee: failure to mark the product pursuant to 35 U.S.C. § 287; delay in prosecuting the claims, or equitable estoppel. By choosing to litigate, inventors assume the burden of defending the patent claims. And because a finding of patent invalidity in any one lawsuit is binding against the patent holder in others, *Blonder-Tongue Labs. v. University of Illinois Found.*, 402 U.S. 313, 350 (1971), patent holders risk losing all their rights any time they sue. It is only after the patent is adjudged valid, enforceable, and infringed that the Court may enter any relief.

After a patent holder sues, modern-day patent defendants often open a second front by petitioning the PTO to reexamine the patents asserted against them. *See* 35 U.S.C. § 302

("Any person at any time may file a request for reexamination . . . ."); *see also* 35 U.S.C. § 311-318. In this case, for example, eBay decided to seek a reexamination of the patents-in-suit, after a judgment that the patents were valid and that it willfully infringed.[5] The PTO routinely grants an initial request for a re-examination of the patent. *See* United States Patent and Trademark Office, *Ex Parte* Reexamination Filing Data, June 30, 2005 (noting that ninety-one percent of *ex parte* re-examination applications, and ninety-six percent of *inter partes* applications, are granted). Yet at the end of re-examination proceedings, the PTO cancels only twelve percent of patents. *Id.*

3. The current patent system allows a patent holder to compete on equal terms with patent infringers. While an inventor enjoys the right to exclude, nothing prevents others from working around the metes and bounds disclosed in the patent. A successful work-around obviates any injunction and excludes any ability for the patentee to earn licensing fees or otherwise make a claim.

Each player thus brings a degree of leverage to the table in licensing negotiations. Each has the ability to deny the other the benefit inherent in the patent. Absent an agreement, they would also deny themselves such benefits, for without a mutually acceptable licensing arrangement, there is neither commercial use nor revenue. This balanced bargaining position strongly encourages each party to reach agreement. Remedial property rules—those that allow a plaintiff to enjoin a defendant—should govern so long as transaction costs to bargaining are low. *See* R.H. Coase, *The Problem of*

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[5] In this case, petitioners requested a reexamination based on the same prior art that had already been rejected by the jury. C.A. App. A66834-66850. Indeed, this practice is a common one in re-exams. Whether the PTO can cancel a patent that has been declared valid by the final judgment of an Article III court raises serious constitutional concerns. *See, e.g., Hayburn's Case*, 2 U.S. 409 (2 Dall.) 409 (1792).

Social Cost, 3 J.L. & Econ. 1 (1960) (teaching that when transactions are costless, the rule of law does not matter); Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 Harv. L. Rev. 1089, 1116-17 (1972). Where such transaction costs are low, negotiated resolutions remain feasible and efficient. In patent cases, transaction costs are likely to be low because the two parties have good information, and normally some shared understanding, about the invention at issue.

Petitioners and their *amici* also complain that the threat of an injunction forces them to overpay for minor inventions. *See, e.g.*, Pet. Brief at 47; Yahoo! Brief at 11. Yet they have provided no empirical support for what is fundamentally a fact-based argument. In addition, the contention is economically illogical. If an invention truly is trivial with respect to the product or system in which the defendant uses it, then an economically rational defendant would design around the invention going forward rather than overpay to avoid an injunction. On the other hand, if an adjudicated infringer cannot design around the invention, then it must have some critical importance not admitted by the infringer.

4. Even by its own terms, petitioners' "solution"—devaluing the right to exclude for *all* patents—is far worse than the supposed "problem"—a poor system that allows the PTO to grant *some* bad patents. As this case arrives in this Court, the patent is valid, and the defendants have willfully infringed. If the petitioners and their *amici* are genuinely concerned about poorly-issued patents, they should seek to change the types of patents that are issued, or reform the PTO. But it is inappropriate to diminish the value of all patents because they think the PTO should not have granted a percentage of patents, particularly because changing the standard of injunctive relief will do nothing to fix any professed concerns about patent quality.

B. Diluting Injunctive Relief Would Lead to Compulsory Licensing, a Result Inconsistent with Congressional Policy

1. The alternative to injunctive relief is compulsory licensing. The *Foster* case cited by petitioners forthrightly acknowledges this fact. *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1319, 1324 (2d Cir. 1974) (stating that "the District Court avoided ordering a cessation of business to the benefit of neither party by compensating appellant in the form of a compulsory license with royalties"). Damages in the form of a reasonable royalty, however, do not prevent further infringement and do not protect the patentee's right to exclude.

Petitioners suggest that independent inventors have no need for injunctive relief because their right to exclude is protected by a damages award that may include "future losses." Pet. Brief at 23. But future lost profits damages are only available to a patentee who sells products. *See Shockley v. Arcan, Inc.*, 248 F.3d 1349 (Fed. Cir. 2001). Because independent inventors often cannot recover future lost profits, injunctive relief is critically important to them. Under the petitioners' proposed regime, even after an independent inventor has proven infringement of a valid patent, the defendant would be free to infringe again, leaving the patentee with no recourse other than another expensive and time-consuming lawsuit. And even then, petitioners' proposed rule would again deny patent holders injunctive relief.

The injunctive remedy is "designed to deter." *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). Eliminating effective injunctive relief removes the deterrent and actually promotes infringement by encouraging adjudicated infringers to continue violating the patentee's rights post-judgment. So long as an infringer's expected profits from infringement exceed the expected penalties, it is economically rational for the defendant to infringe—and indeed to continue infringing even

after an adverse judgment. *See* F. Scott Kieff & Troy A. Paredes, *F. Hodge O'Neal Corporate and Securities Law Symposium: An Approach to Intellectual Property, Bankruptcy, and Corporate Control*, 82 Wash. U. L. Q. 1313, 1320 (2004). If the only consequence of losing an infringement case is to pay a reasonable royalty, many companies will choose to infringe and assume the risk of litigation, knowing that at worst the Court will only require them to remit to the patentee a reasonable royalty. For all intents and purposes, that is compulsory licensing, discriminatorily imposed on some but not all patentees depending on whether they "use" their patents or on other factors external to the patent rights themselves. Particularly when the patent holder is an individual or a small company, the infringer can then engage in a drawn-out court struggle against a plaintiff with a fraction of the resources.

As early as 1812, Chancellor Kent recognized these incentives and noted that "unless the injunction was granted, any person might violate the patent, and the consequence would be, that the patentee would be harassed with litigation." *Livingston*, 9 Johns. at 587. Furthermore, limiting the patentee's remedy to damages means that courts and juries will decide the value of the patent, not the patentee and the infringer—the parties most knowledgeable about the true value. *See In re Mahurkar Double Lumen Hemodialysis Cathater Patent Litig.*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) (Easterbrook, J.). A rule that makes damages the only practically available remedy risks undervaluing inventions by leaving to the courts or juries complicated valuation judgments better left to the bargaining of the parties themselves. Moreover, price often is just one of many complicated terms in a license agreement. Left to their own devices, parties can reach a more mutually beneficial agreement than any remedy a court might impose.

Even under the current system, some corporations admit that they intentionally do not review the publicly available

database of issued patents and patent applications. In the case at bar, both eBay and Half.com failed to conduct a patent clearance investigation or obtain an opinion of counsel. JA 446-47, 450-53; Pet. App. 35a. Likewise, Intel Corporation eschews patent clearances in its publicly stated Patent Licensing Practices. "Unless otherwise agreed to by Intel in writing, *Intel does not perform patent searches.*" http://www.intel.com/standards/licensing.htm (emphasis added). The Federal Trade Commission has noted that the practice is widespread. Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 4, 29 & n. 203 (2003).

This studied ignorance virtually ensures that companies will face some patent liability. Petitioners cannot now complain about the cost of patent infringement when their policy is to turn a blind eye to infringement in the first instance. If they want to *try* to avoid liability, they should at least do a patent search. Many companies argue that they do not conduct patent searches out of fear that it will lead to a finding of willful infringement. *Id.* Such a concern is puzzling. If the company finds that a patent reads upon what they propose to do, they should either negotiate a license or work around the patent. Moreover, while the petitioners and their *amici* complain about the cost of injunctions, they overlook their own balance sheets. Under the current regime, companies selling goods that infringe nevertheless derive a substantial portion of their profits from the sales of infringing products. Yet they want a rule that allows them to profit even more, diminishing the patent rights of those who invented it first.

2. Congress consistently has rejected attempts to mandate compulsory licensing. Indeed, in 1945 this Court commented: "Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. It has failed to enact these proposals into law."

Hartford-Empire Co. v. United States, 323 U.S. 386, 417 (1945) (citing prior attempts). The rejection of such requests has continued since *Hartford-Empire*. *See, e.g.*, H.R. 1708, 107th Cong. (1st Sess. 2001); H.R. 2927, 106th Cong. (1st Sess. 1999).

Petitioners seek a fundamental change in the patent system that could destroy the incentives to invest in innovation. This Court should not short-circuit the legislative process, and award to petitioners and their *amici* what so far the Legislative Branch has refused to give them. The proper forum in which to seek such a fundamental change—one that would upend centuries of settled expectations—is Congress.

CONCLUSION

The judgment of the court of appeals should be affirmed.

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Supreme Court, U.S.
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IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF ELECTRONIC FRONTIER FOUNDATION, PUBLIC PATENT FOUNDATION, AMERICAN ASSOCIATION OF LAW LIBRARIES, AMERICAN LIBRARY ASSOCIATION AND SPECIAL LIBRARIES ASSOCIATION AS AMICI CURIAE IN SUPPORT OF PETITIONERS

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STATEMENT OF INTERESTS OF AMICI[1]

Electronic Frontier Foundation (EFF) is a nonprofit, membership-supported civil liberties organization working to protect consumer interests, innovation and free expression in the digital world. EFF and its over 15,000 dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between intellectual property and the public interest. The Federal Circuit's automatic injunction rule undermines the traditional patent bargain and may impact the exercise of free expression, both issues of critical interest to consumers. As an established advocate of consumer interests and digital rights, EFF has a perspective to share that is not represented by the parties to this appeal, neither of whom speaks directly for the interests of consumers or the public interest generally.

The Public Patent Foundation (PUBPAT) is a not-for-profit legal services organization founded in 2003 to represent the public interest in the patent system, and most particularly the public's interests against the harms caused by wrongly issued patents and unsound patent policy. PUBPAT provides the general public and specific persons or entities otherwise deprived of access to the patent system with representation, advocacy, and education. It is funded by grants from the Rockefeller Foundation, the Echoing Green Foundation, the Rudolph Steiner Foundation and the Open Society Institute as well as donations from private individuals. PUBPAT has an interest in this matter because the decision of this Court will have a significant effect on the public interest represented

1. Per Rule 37.6, amici state that no party has participated, in whole or in part, in writing or financing of this brief. Both parties have consented to the filing of this brief and copies of their letters of consent have been filed with the court.

by PUBPAT. More specifically, PUBPAT has an interest in ensuring that injunctions in patent cases be issued only after due consideration is given to the impact they will have on the public.

The American Association of Law Libraries (AALL) is a nonprofit educational organization with over 5,000 members nationwide. AALL's mission is to promote and enhance the value of law libraries to the legal and public communities, to foster the profession of law librarianship, and to provide leadership in the field of legal information and information policy. The American Library Association (ALA) is the oldest and largest library association in the world, with over 66,000 members representing school, public, and academic libraries as well as library trustees and friends-of-libraries. ALA is dedicated to the improvement of library and information services and the public's right to a free and open information society. The Special Libraries Association (SLA) is a nonprofit global organization for innovative information professionals and their strategic partners. SLA serves more than 12,000 members in 83 countries in the information profession, including corporate, academic and government information specialists. SLA promotes and strengthens its members through learning, advocacy and networking initiatives. These library associations have a longstanding interest in promoting the public objectives of the federal intellectual property system and defending the First Amendment.

SUMMARY OF ARGUMENT

The Federal Circuit Court of Appeals has overstepped its bounds and, in the process, improperly tied the hands of federal judges around the nation. The Federal Circuit's "automatic injunction" rule forces courts to ignore important equitable considerations—including those affecting free speech and other activities protected by the First Amendment. Further, the Federal Circuit's rule rejects the plain language of the United States Patent Code and the clear discretionary powers it grants, thereby depriving the courts of their historic role in furthering the aims of the patent law—to "Promote the Progress of Science and the Useful Arts." Const. Art 1 § 8. The rule must not be allowed to stand.

The Federal Circuit's rule appears to be based, in part, on a woefully impoverished vision of the public interests at stake in patent litigation. The public interest should play a central role in any injunctive relief analysis, and that role is especially important in intellectual property litigation. Instead, the court has denigrated the role of the public interest by limiting it solely to "exceptional circumstances" and then narrowly defining those "circumstances" as nothing more or less than a public health crisis. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338-39 (Fed. Cir. 2005). This is an unprecedented and unjustified truncation. While public health concerns are doubtless important in many medical and drug patent cases, courts should be encouraged to consider other public interests as well.

In particular, the automatic injunction rule offers little, if any, room for consideration of an increasingly evident public interest in patent litigation—free speech. Freedom of expression is not an absolute. It can be and has been

constrained by the rule of law, including the law of remedies. To determine the limits of that constraint, however, courts of equity *must* be free to weigh the need for injunctive relief against the potential impact such relief may have on speech and speech-related activities. This Court's jurisprudence demands nothing less.

That balancing is particularly important in internet-related patent actions. Tools such as websites and "blogging" have become increasingly popular means of expression. Video and audio streaming technology is ubiquitous. Email and Instant Messaging are essential communications media. As more and more people use software and internet technology to express themselves online, more and more speech is potentially subject to regulation by intellectual property laws that govern the use of these technologies. Patent owners who claim control over internet publishing mechanisms are in a position to threaten anyone who uses them, even for personal non-commercial purposes. Given the explosion of new communications technologies—and the simultaneous explosion of patents on those technologies—this is hardly the time to limit courts' ability to consider the benefits that a given technology brings to freedom of expression, and the concomitant chilling effects of enjoining use of that technology.

The Federal Circuit's truncated vision of the public interests at stake in patent litigation is rooted, in turn, in an all-too-common elision of the distinction between patents and other forms of real and personal property. This Court's invitation of further briefing on its holding in *Continental Paper Bag v. Eastern Paper Bag*, 210 U.S. 405 (1908), is appropriate, for the *Continental Paper Bag* majority made the same mistake. Contrary to *dicta* in both decisions, patents

are a unique form of highly circumscribed property, akin to a government subsidy, designed to achieve a specific public purpose: scientific and industrial progress. It is the province of the courts to ensure that this public purpose is not wholly subordinated to the purely commercial interests of inventors or infringers. Traditional equitable principles provide an established structure within which courts may carry out this duty. Those principles should not be abandoned in favor of an untested and unjustified mandate.

ARGUMENT

I. THE FEDERAL CIRCUIT'S AUTOMATIC INJUNCTION RULE DOES NOT PERMIT DUE CONSIDERATION OF COUNTERVAILING FREE SPEECH INTERESTS

Every day, more and more citizens are using new communications tools and software to exercise their First Amendment rights online. As a result, the internet has become a "dynamic, multifaceted category of communication [that] includes not only traditional print and news services, but also audio, video, and still images, as well as interactive, real-time dialogue. Through the use of chat rooms, any person with a phone line can become a town crier with a voice that resonates farther than it could from any soapbox. Through the use of Web pages, mail exploders, and newsgroups, the same individual can become a pamphleteer." *Reno v. Am. Civil Liberties Union*, 521 U.S. 844, 870 (1997).

At the same time, the number of patents on internet technologies has increased exponentially. Judicial decisions issuing or denying injunctions on the use of these technologies are likely to shape the future of online speech.

In particular, consideration of the third traditional equitable factor in injunctive relief analysis—the impact of the injunction on the public interest—will play an increasingly more crucial role in mediating between the Intellectual Property Clause and the First Amendment.

A. Patented Technologies Increasingly Affect Free Expression Online

Twenty years ago, it might have been possible to dismiss the public interest factor as effectively met by a prior infringement finding, absent a public health issue, because it could be assumed that the principal public interest at stake in patent litigation was the promotion of innovation through the patent system. *See, e.g., Polaroid v. Eastman Kodak*, 641 F.Supp. 828, 876 (D. Mass 1985), *denial of stay aff'd.*, 833 F.2d 930 (Fed. Cir. 1986) ("the public policy at issue in patent cases is the 'protection of rights secured by valid patents'"), quoting *Smith Int'l v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir., cert. denied 464 U.S. 996 (1983).

Yet that assumption, if it were ever correct, is clearly invalid today. Many new and pending patents "appropriate methods of communication." John R. Thomas, *Liberty and Property in the Patent Law*, 39 HOUS. L. REV. 569, 588 (2002). The United States Patent and Trademark Office has issued patents on methods for downloading video programs, publishing web pages, sending email messages, making internet telephone calls, and even online fundraising methods. Injunctions against uses of these technologies—and many similar technologies—will inevitably affect, and may even chill, free expression on the internet.

Consider, by way of example, Acacia Research's aggressive campaign to enforce its patent on the sending and receiving of streaming audio and video over the internet. U.S. Patent No. 5,132,992 ("Audio and video transmission and receiving system"); Teresa Riordan, *A Patent Owner Claims to Be Owed Royalties on Much of the Internet's Media Content*, N.Y. Times, Aug. 16, 2004, at C6; M. Hachman, *Acacia Wins Small Victory against Porn Firms*, Extreme Tech July 16, 2003, at *http://www.extremetech.com/article2/0,1558,1195937,00.asp*. This patent could cover everything from the transmission of home movies to political speeches to music—in other words, it could arguably cover much of what individuals, private corporations, political action committees, governments, etc. communicate on the internet. While any lawsuit to enforce this patent would likely be filed against a technology vendor, an injunction stemming from that suit would also affect the ability of thousands, perhaps millions, of non-party end users to communicate. "Speaking" in this way, in violation of a court injunction, would subject the speaker to contempt of court penalties, a punishment that would surely chill speech for some if not most. Courts must be allowed to consider such impacts on speech prior to issuing any injunction.

Acacia's campaign is just the tip of the iceberg. As of this writing, approximately 269 published patent applications are pending on technologies designed for use in connection with "web logs" or "blogs" i.e., internet-based publications consisting primarily of periodic short writings and images.[2] This Court

2. *See, e.g.*, U.S. Patent App. No. 20050055639 ("Relationship User Interface"); U.S. Patent App. No. 20040267887 ("System and Method for Dynamically Managing Presence and Contact Information"); U.S. Patent App. No. 20040076345 ("Method for Referencing Image Data"); U.S. Patent App. No. 20030187739 ("System and Method of Providing and Interface to the Internet"); U.S. Patent App. No. 20020156879 ("Policies for Modifying Group Membership").

has characterized the internet as a "a vast platform from which to address and hear from a world wide audience of millions of readers, viewers, researchers, and buyers." *Reno*, 521 U.S. at 853. Blogs are an increasingly popular means by which individuals ranging from teenagers to political advocates to corporate executives speak on that platform. Blog content can range from highly-personal writings to relatively neutral news reporting, and may reflect the contributions of one person or the collaboration of a large community. *See, e.g.* William F. Patry, "The Patry Copyright Blog" at *http://www.williampatry. blogspot.com* (commenting on developments in copyright law); Multiple Authors, "SCOTUSblog" at *http://www.scotus blog.com/movabletype/* (reporting and commenting on United States Supreme Court jurisprudence and politics). In the few short years of their existence, blogs have become crucial sources of expression and information. For example, in the aftermath of Hurricane Katrina, bloggers located in or near New Orleans provided timely first person accounts of the devastation. *See, e.g., Bloggers Joel and Jake Visit NOLA for Geek Aid*, September 10, 2005, at *http://www.boingboing.net/2005/09/10/katrina_bloggers_joe.html*; *Katrina: 'Rape, Murder, Beatings' in Astrodome, Say Evacuees*, September 7, 2005, at *http://www.boingboing.net/2005/09/07/katrina_rape_murder_.html*. The same outpouring of political expression has occurred via the internet regarding such topics as the War in Iraq and the 2004 national election. *See generally* Beth Potier, *How Did Internet Affect Election*, Harvard Univ. Gazette, Dec. 16, 2004, at *http://www.news.harvard.edu/gazette/2004/12.16/13-netvote.html*; Kathy Kiely, *Freewheeling 'Bloggers' Are Rewriting Rules of Journalism*, USA Today, Dec. 30, 2003, at *http://www.usatoday.com/news/politicselections/nation/2003-12-30-blogging-usat_x.htm*; *Bloggers and Journalists*, Online NewsHour,

Feb. 14, 2005, at *http://www.pbs.org/newshour/bb/media/jan-june05/blog_2-14.html*. Moreover, many weblogs enable visitors to leave public comments, which can foster the development of a community of writers centered around the blog.

If patents are issued on blogging technologies and the decision below affirmed, patent owners could threaten to shut down both bloggers and their commentators with automatic injunctions. Key news reporting could be censored. Relevant political commentary could be held hostage under the rubric of "licensing negotiations." Basic free speech values mandate that courts should consider such potential effects before issuing a permanent injunction, but the Federal Circuit's new standard offers little leeway for that consideration.

Political expression in the world of online grassroots activism may also be threatened. Consider a pending patent application that encompasses:

> A method for conducting a fundraising campaign by an organization or person over a wide-area network, comprising the steps of: hosting a website including a plurality of linked web pages, the website providing information about the fundraising campaign and soliciting potential donors to make a charitable contribution to the fundraising campaign; registering on the website; *contacting third parties via email messages soliciting charitable donations; and providing one or more reports, on the website, including information on the status of the fundraising campaign.*

"Method and system for an efficient fundraising campaign over a wide area network," U.S. Patent App. No. 764787

(emphasis added). Should the applicant succeed in obtaining this patent, it could seek injunctions against virtually every nonprofit in the nation based, in large part, on those nonprofits' expressive activity of contacting potential donors and providing issue-related information regarding those contacts. Moreover, such injunctive relief might be dangerously timed. Imagine the impact, for example, of timing one's motion to enjoin political advocates such as the Republican National Committee or Moveon.org from fundraising so that an injunction would go into effect six months before an important election. Even the American Red Cross, source of the vast majority of Katrina relief funding, could have its website shut down in the critical days or weeks after a disaster. The threat of such a result could lead these groups to pay questionable license fees to the patent holder because the damage to their First Amendment rights and/or mission while the injunction was pending appeal would be irreparable.[3] This is not the proper balance of harms and equities, especially where freedom of expression is concerned.

Further, the Federal Circuit's rule potentially threatens yet another First Amendment concern--academic freedom. Every day, more and more entities are attempting to patent online education and research tools, from methods used in distance learning to online instruction in language, music, and mathematics—including a patent on using inductive

3. eBay and numerous amici have detailed the improper leverage the Federal Circuit's new injunctive relief standard would give to patent holders. EFF and its co-signatories share their concerns and, to avoid undue repetition, incorporate their arguments by reference here.

reasoning to teach vocabulary.[4] An injunction against the use of these methods could directly impinge on academic speech and, by extension, academic freedom, long recognized as "a special concern of the First Amendment." *Keyeshian v. Bd. of Regents*, 385 U.S. 589, 603 (1967).[5] If, as this Court has declared, "Our Nation is deeply committed to safeguarding academic freedom, which is of transcendent value to all of us," *id.*, then courts must have discretion to consider whether an injunction risks violating that commitment.

Finally, injunctive relief may even hamper the public interest in critical emergency communications. Congress' public plea to legal adversaries Research in Motion, Inc. (the manufacturer of technology that forwards a user's incoming email to a handheld device—called a Blackberry—via a customer-selected wireless network) and NTP, Inc., is a case in point. The House of Representatives' chief administrative officer asked the parties to settle their dispute over the rights to the Blackberry devices because any injunction shutting down the BlackBerry service could create "a serious risk to

4. *See* U.S. Patent No. 6,513.042 ("Method for administering tests, lessons, assessments, and surveys on the Internet, scoring them, and maintaining records of test scores online"); U.S. Patent No. 5,649,826 ("Method and Device for Teaching Language"); U.S. Patent No. 6.015,947 ("Method of Teaching Music"); U.S. Patent No. 6,120,297 ("Vocabulary Acquistion [sic] Using Structure Inductive Reasoning"); U.S. Patent No. 6,155,836 ("System for Teaching Mathematics").

5. For example, Test.com has threatened several universities with lawsuits based on its patent claiming "A method of making a tests, assessments, surveys and lesson plans with images and sound files and posting them on-line for potential users." U. S. Patent No. 6,513,042; *see* Dan Carneval, *Company Claims to Own Online Testing*, Chron. Higher Ed., Mar 26, 2004, at 31.

the House's critical communications and could jeopardize the public interest, particularly in the even of an emergency." *See* Jonathan Krim, *House Makes Plea to Keep Blackberrys*, Wash. Post, Jan. 17, 2003, at E01. Perhaps recognizing the ramifications of the litigation, the district court appropriately gave due consideration to traditional equitable principles in deciding whether to grant permanent injunctive relief to NTP--as it was required to do before the Federal Circuit imposed its new and untenable standard. *NTP v. Research in Motion*, 2003 WL 23100881 at *2 (E.D. Va. 2003), *affirmed in part, vacated in part and remanded on other grounds in* 392 F.3d 1336 (Fed. Cir. 2004).

These examples are but a small sampling of visible threats to free speech that patents present, relating primarily to internet-based technologies. It is virtually certain that as new internet technologies of communication develop, the need to assess the free speech implications of patents on those technologies will grow as well. Nor is there any reason to suppose that that need will be confined to injunctions affecting internet technologies. If computer source code can be understood as expression for First Amendment purposes, *Bernstein v. U.S. Dept. of Justice*, 176 F.3d 1132 (9th Cir. 1999), injunctions preventing use of a wide range of infringing software are likely to impact free speech in ways we cannot yet anticipate. Traditional equitable principles give judges both the flexibility and the rich precedential history they will need to deal with these new challenges.

B. Consideration of The Public Interest In Free Speech Should Not Be Exceptional But Rather Routine.

Amici recognize that the Federal Circuit did leave open a tiny public interest window by holding that judges may decline to enter an injunction when the injunction frustrates "an important public need." *MercExchange*, 401 F.3d at 1338. Taken in isolation, this holding could be read simply to restate the traditional equitable principle that injunctions may be denied if the third factor (impact on the public interest) so mandates.

Unfortunately, the court went a good deal farther. First, the court effectively shifted the burden of proof to require defendants to establish the existence of an "important public need." Second, the only "important public need" that the court identified as sufficient to support denial of an injunction was "the need to use an invention to protect the public health." *Id.* Third, the court held that the growing public concern regarding the proliferation of business method patents did not qualify as an "important public need"—but failed to explain why. One valid reason for this growing public concern has been its effect on free expression online—something the Federal Circuit showed no interest in exploring or allowing any district court judge to explore. Fourth, the court took pains to stress that "the general rule" is "that court will issue permanent injunctions against patent infringement absent *exceptional circumstances.*" *Id.* at 1339 (emphasis added).

The public interest should not take a backseat in patent cases. Courts of equity have long held that the public interest is an essential and fundamental factor in injunctive relief analysis, not something to consider only in "exceptional

circumstances." As discussed in more detail below at section II.B, it is axiomatic that courts must consider the public interest in the course of exercising their equity powers, absent a specific Congressional mandate to the contrary. "[I]t is the duty of a court of equity granting injunctive relief to do so upon conditions that will protect all—including the public—whose interests the injunction may affect." *Inland Steel v. U.S.*, 306 U.S. 153, 157 (1939); *see also Meredith v. City of Winter Haven*, 320 U.S. 228, 235 (1943) ("An appeal to the equity jurisdiction conferred on federal district courts is an appeal to the sound discretion which guides the determinations of courts of equity [citation omitted]. Exercise of that discretion by those, as well as by other courts having equity powers, may require them to withhold their relief in furtherance of a recognized, defined public policy."). The Federal Circuit does not explain, much less support, its decision to reject these black-letter rules.

Moreover, the public interest should not be limited to narrow issues such as "risk to public health" but rather kept broad and flexible so that courts may consider whatever issues pertain to a particular situation and circumstance. Again, this is nothing more than black-letter law. *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it.").

Indeed, the Federal Circuit's narrow "exceptional circumstances" standard is particularly offensive when injunctive relief implicates free speech concerns. Courts assessing the propriety of injunctive relief in other contexts routinely consider First Amendment interests as part of the third equitable factor. This Court has held that injunctions

"carry greater risks of censorship and discriminatory application than do general ordinances" and "require a somewhat more stringent application of general First Amendment principles." *Madsen v. Women's Health Ctr.* 512 U.S. 753, 754, 764 (1994). The Federal Circuit offers no reason why the *Madsen* rule should not apply to injunctions in patent cases.

II. THE FEDERAL CIRCUIT'S AUTOMATIC INJUNCTION RULE IS INCONSISTENT WITH THE PURPOSES OF PATENT LAW, SECTION 283 AND TRADITIONAL PRINCIPLES OF EQUITABLE RELIEF IN INTELLECTUAL PROPERTY CASES

A. The Federal Circuit Has Undermined the Patent Bargain

1. Patents Are Not Like Other Property

The Federal Circuit's overreaching injunction standard stems, in part, from a misperception that patents are effectively indistinguishable from other forms of property and, therefore, subject to identical rights and remedies. That misperception may be based, in turn, on this Court's misleading observation, in *Continental Paper Bag*, 210 U.S. at 425, that "patents are property, and entitled to same rights and sanctions as other property." The Court went on to conclude that a patent owner need not practice a patented invention for a court to enjoin to others from doing so, for "it is the privilege of any owner of property to use it or not use it, without question of motive." *Id.* at 429. Or, as the Federal Circuit would put the matter almost 100 years later, "the right to exclude recognized in a patent is but the essence of the concept of property." *MercExchange*, 401 F.3d at 1338, quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989).

In fact, as this Court's own opinions before and after the *Continental Paper Bag* decision have repeatedly emphasized, a patent is a unique form of property. Properly understood, it is a distinct statutorily created and limited monopoly, designed solely to encourage inventors to disclose their inventions to the public. *See generally*, *Kendall v. Windsor*, 62 U.S. 322 (1858) ("it is undeniably true that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or the community at large was another and doubtless the primary object in granting and securing that monopoly"); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 US 503 (1917) ("this court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for owners of patents but is 'to promote the progress of science and the useful arts'"); *Mercoid Corp. v. Mid-Continent Co.*, 320 US 661, 666 (1944) (patent is a privilege "conditioned by a public purpose"); *Pfaff v. Wells Elecs. Inc.*, 525 U.S. 55, 63 (1998) ("the patent system represents a carefully crafted bargain" between the public and the inventor); Richard Posner, *Do We Have Too Many Intellectual Property Rights?*, 9 MARQ. INTELL. PROP. L. REV. 173, 175, 185 (physical property, unlike intellectual property, not limited by scope or duration, and lacking in robust concept of fair use). As Thomas Jefferson, one of the first administrators of the U.S. patent system, observed, "Inventions cannot, in nature, be the subject of property. Society may give an exclusive right to the profits arising from them . . . but this may or may not be done according to the will and convenience of society." VI Writings of Thomas Jefferson, 180-81 (Washington ed.), quoted in *Graham v. John Deere*, 383 U.S. 1, 9 n.2 (1966); *see also*, *generally*, *Wheaton v. Peters*, 33 U.S. 591, 595 (1834). Indeed, even Respondent concedes that patent rights embody nothing more

or less than a "carefully crafted bargain for encouraging the creation and disclosure of new, useful and nonobvious advances in technology and design." Resp't Br. in Opp'n to Pet for Cert., at 3, quoting *Bonito Boats Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150 (1989).

Because patents are a unique form of property designed to achieve a distinct public objective, the right to exclude others from using this property is subject to unique constraints, including: the experimental use exception and the medical testing exception, *see, e.g., Roche Prods. v. Bolar Pharm. Co.*, 733 F.2d 856, 862-63 (Fed. Cir. 1984), cert. denied, 469 U.S. 856 (1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e); *Merck KGaA v. Integra LifeSciences I Ltd.*, 125 S.Ct. 2372 (2005), and 35 U.S.C. § 271(e); patent misuse and antitrust limitations, *see, e.g., Brulotte v. Thys Co.*, 379 U.S. 985 (1965), *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1985), and 35 U.S.C. § 271(d); and prior user rights, *see, e.g.*, 35 U.S.C. § 273; *see also, generally*, Michael Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 DUKE L. J. 1, 106-125 (2004). These limits are designed to ensure that the public receives the full benefits of the patent bargain. Thus, while patent rights, like other forms of property, include the right to exclude, that right is not, and has never been, an absolute right.[6]

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6. Moreover, even if patents *were* like other property, a patent right would not amount to an absolute right to exclude. *See* Carrier, *supra*, at 50-76 (describing limits on property rights, including limits on the right to exclude such as: easements, capture, and bona fide purchaser rights).

The distinction matters. Legal scholars have noted that the increasing "propertization" of intellectual property "instead of stimulating invention . . . can actually undermine the economic goals that underlie intellectual property laws." Posner, *supra*, at 185. For this reason, among others, *Continental Paper Bag* was subject to scathing criticism for its improper characterization of patent rights by three dissenting justices in *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945) (Douglas, J., Murphy, J., and Black, J., dissenting). In that case, the majority followed *Continental Paper Bag* and reversed a lower court holding denying a patent to an applicant that did not use or intend to use the subcombination that was the subject of the application, but rather sought the patent solely to prevent others from appropriating a subcombination that was an "essential part" of a distinct patented machine which the patentee *did* use. *Id.* at 378-79.[7]

The dissenting justices used the case as an opportunity to challenge the underlying premises of *Continental Paper Bag* and to point to the deleterious effects that can result when courts lose sight the "public benefit" side of the patent bargain. Writing for Justices Murphy and Black, Justice Douglas characterized the use of patents to suppress inventions as "inconsistent with the Constitution and the patent legislation which Congress has enacted." *Id.* at 381. A patent, he argued, is not just "another form of private property," but rather "a privilege 'conditioned by a public purpose.'" *Id.* at 382, quoting *Mercoid Corp.*, 320 U.S. at 666. *Continental Paper Bag's* "radical departure from that

7. Though the Court was careful to note that there was no record that the applicant did not intend to use the subcombination at all; the applicant did in fact use the subcombination as part of another machine. *Id.* at 375-76.

theory," *i.e.*, its treatment of the "'exclusive' right of the inventor as something akin to an 'absolute' right," improperly subordinated that public purpose to the "self-interest of the patentee." *Id.* The result had been that the suppression of patents had become commonplace, "creating a clog to our economic machine and a barrier to an economy of abundance." *Id.* at 383. The Supreme Court was obliged, Justice Douglas concluded, to remove the "private perquisites" which it had itself "engrafted onto the patent laws." *Id.*

By treating injunctive relief as the right of the prevailing party in virtually every circumstance, the Federal Circuit has taken *Continental Paper Bag*'s "radical departure" one step further. Even in *Continental Paper Bag*, the Court was careful to state that it was disputable that "rights of the public [understood as public interests] were involved," observing that the record presented "no question of diminished supply or of increase of prices." 210 U.S. at 429. The Court thus had no opportunity to consider, much less to announce a clear rule, regarding injunctive relief when public interests in the uses themselves were at issue, such as access to medicine, communications technologies, etc. Indeed, while it found that the public interest did not require that an inventor work the patent to maintain its rights in that patent, it expressly declined to decide whether "a case cannot arise where, regarding the situation of the parties in view of the public interest, a court in equity might be justified in withholding relief by injunction. . . ." *Id.* at 430. Similarly, in *Special Equipment*, the majority declined to address the question of "whether the courts on equitable principles should decline to enjoin patent infringements . . . if and when it appears that the patentee or inventor intends to make no use of the invention." *Special Equipment*, 324 U.S. at 379.

The Federal Circuit had no such scruples. Under the Federal Circuit's analysis, once a defendant has been found to infringe a valid patent, a court in equity cannot be justified in withholding an injunction in view of the public interest, unless an injunction would result in a public health crisis. *MercExchange*, 401 F.3d at 1338-39. Such a rule would do precisely what Justice Douglas feared: encourage courts and parties to lose sight entirely of the broader public purpose of the patent grant. Thus, in the name of upholding the "concept of property," *id.* at 1338, the Federal Circuit has ripped the concept of *intellectual* property from its Constitutional moorings. This Court should reaffirm those moorings to ensure that the public continues to receive the benefit of its bargain with inventors.

B. The Federal Circuit Has Ignored An Express Legislative Mandate

Beyond abandoning this Court's historical jurisprudence and sane patent policy, the Federal Circuit also ignored the express mandate of the Patent Act. The Patent Act permits a court to "grant injunctions *in accordance with the principles of equity* . . . on such terms as the court deems reasonable." 35 U.S.C. § 283. Congress began drafting the modern Patent Act in 1950, just a few years after *Special Equipment*. If the legislature had intended to limit judicial discretion in infringement cases—limits this Court expressly declined to impose itself in both *Continental Paper Bag* and *Special Equipment*—it knew how to do so. *See, e.g.*, Investment Company Act of 1940, 54 Stat. 842, 15 U.S.C.A. § 80a-41 ("Upon a showing that such person has engaged or is about to engage in any such act or practice, a permanent or temporary injunction or decree or restraining order *shall* be granted without bond.") (emphasis added); Investment

Advisers Act of 1940, 54 Stat. 853, 15 U.S.C. § 80b-9, 15 U.S.C.A. § 80b-9 ("Upon a showing that such person has engaged or is about to engage in any such act or practice, or in aiding, abetting, counseling, commanding, inducing, or procuring any such act or practice, a permanent or temporary injunction or decree or restraining order *shall* be granted without bond.") (emphasis added).

As the Federal Circuit itself has admitted, nothing in the Patent Act suggests that "once infringement is established and adjudicated, an injunction must follow." *Roche Prods.*, 733 F.2d at 866, *as recognized in W.L. Gore & Assoc.*, 977 F.2d 558 (Fed. Cir. 1992) (observing that "if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language. . . .").

Instead, Congress enacted a remedies provision that recognizes the courts' duty to ensure that the traditional patent bargain is being met. Under the Act, a court in equity is expressly empowered, indeed *required*, to consider traditional equitable principles, including the public interest, prior to issuing an injunction in any patent dispute. This legislative authorization is crucial, for once a patent is issued and found valid, no other entity is well-positioned to enforce the public interest. Both patentee and infringer are likely to be guided primarily by self-interest, while third party advocates are likely to lack standing.

Absent a plain legislative mandate, no court should lightly abandon its duty to consider the traditional equitable principles that have "made equity the instrument for nice adjustment and reconciliation between the public interest and private needs as well as between competing private claims."

Hecht Co., 321 U.S. at 329-30 (1944). Simply put, "permitting courts to consider equitable principles in deciding whether to grant injunctions was what Congress intended in writing the 1952 Patent Act; it's just that the Federal Circuit has strayed from the statutory language." M. A. Lemley, Patent Reform Legislation, Testimony before the Senate Committee on the Judiciary, June 14, 2005, at *http://judiciary.senate.gov/testimony.cfm?id=1535&wit_id=4352*. This Court should pull the Federal Circuit back in line with its legislative mandate.

C. The Automatic Injunction Rule Dramatically Departs From Intellectual Property Remedies Doctrine.

The Federal Circuit also strays from relevant intellectual property jurisprudence. Court after court—including the Federal Circuit itself—has followed Congress' mandate and interpreted Section 283 to require the application of traditional equitable principles in patent cases. *See, e.g., Odetics v. Storage Tech. Co.*, 14 F. Supp. 2d 785, 788 (E.D. Va. 1999), *aff'd*, 185 F.3d. 1259 (Fed. Cir. 1999); *NTP*, 2003 WL 23100881 at *2; *B & H Mfg. Inc. v. Owens-Illinois Glass Container Inc.*, 22 U.S.P.Q.2d 1551, 1552 (N.D.Ga. 1991); *E.I. DuPont de Nemours & Co. v. Phillips Petroleum Co.*, 711 F.Supp. 1205, 1227 (D.Del. 1989). These courts have recognized that while permanent injunctions may be the "general rule" in patent cases, judges may not shirk their obligation to consider the equities of the particular case before them.

Copyright and trademark cases interpreting analogous statutes reflect the same pattern. While courts acknowledge a general rule favoring injunctive relief in both arenas, no

court has read the "general rule" to deprive judges of the authority to exercise their discretion. With respect to trademark, the Lanham Act provides that courts may "grant injunctions *according to principles of equity* and upon such terms as the court may deem reasonable." Lanham Act § 34, 15 U.S.C. § 1116 (emphasis added). Courts have reasonably interpreted that statute to require consideration of the traditional equitable principles prior to the issuance of a permanent injunction. *See, e.g., Shields v. Zuccarini*, 254 F.3d 476, 486 (3d. Cir. 2001) (applying traditional equitable principles to injunction analysis); *see also CFM Majestic, Inc. v. NHC, Inc.*, 93 F.Supp.2d 942, 958-59 (N.D. Ind. 2000) (same); *Partido Revolucionario Dominicano (PRD) Seccional Metropolitana de Washington-DC, Maryland y Virginia v. "Partido Revolucionario Dominicano, Seccional de Maryland y Virginia,"* 312 F.Supp.2d 1, 10 (D.D.C. 2004) (same).

Courts exercise similar discretion in copyright cases, even though the Copyright Act, unlike the Patent Act, does not specifically require consideration of traditional equitable principles but rather authorizes "final injunctions on such terms as [courts] may deem reasonable." 17 U.S.C. § 502(a). Despite this broad authorization, "final injunctive relief is not automatic." Paul Goldstein, *Goldstein on Copyright* § 13.2.1.1 (3d Ed. 2005); *see also, e.g., New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) ("it hardly follows from today's decision [finding infringement] that an injunction . . . must issue"); *Dun v. Lumberman's Credit Assoc.*, 209 U.S. 20, 23 (1908) (declining to issue injunction where "an injunction would be unconscionable."); *Taylor Corp. v. Four Seasons Greetings L.L.C.*, 403 F.3d 958, 967 (8th Cir. 2005) (propriety of a permanent injunction depended on balancing of harms); *New Era Pubs. Int'l, APS v. Henry Holt*

Co., 884 F.2d 659, 661 (2nd Cir. 1989) (Miner, J., concurring) ("equitable considerations are always germane to the determination of whether an injunction is appropriate."); *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) (finding "special circumstances" that would cause "great injustice" to defendants and "public injury" were injunction to issue), *aff'd sub nom. Stewart v. Abend*, 495 U.S. 207 (1990).

Moreover, copyright jurisprudence explicitly acknowledges what the Federal Circuit has forgotten: the "nice adjustment" between public and private interests that consideration of the equities requires is crucial in the intellectual property law context. In *Campbell v. Acuff-Rose Music*, for example, this Court observed that "courts may also wish to bear in mind that the goals of the copyright law, 'to stimulate the creation and publication of edifying matter,' [citation omitted] are not always best served by automatically granting injunctive relief when parodists are found to have gone beyond the bounds of fair use." 510 U.S. 569, 578 n10 (1994), quoting P. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1134 (1990) (in cases "raising reasonable contentions of fair use . . . there may be a strong public interest in the publication of the secondary work [and] the copyright owner's interest may be adequately protected by an award of damages for whatever infringement is found").

This Court should ensure that the public interest is not forgotten in patent litigation by rejecting the Federal Circuit's radical and unnecessary departure from the traditional injunction test and reaffirming consideration of the public interest as a routine and essential step in the exercise of judicial discretion.

CONCLUSION

The Federal Circuit's effort to calcify a "general rule" into a mandate that improperly diminishes the public interest in patent remedies analysis, deprives judges of their statutorily mandated discretion and distorts the basic purposes of patent law. This Court should reverse the Federal Circuit's misguided decision, confirm the traditional standard for patent injunctions and restore judges' ability to take full account of the myriad public interests at stake in patent litigation.

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IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF *AMICI CURIAE* OF 52 INTELLECTUAL PROPERTY PROFESSORS IN SUPPORT OF PETITIONERS

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INTEREST OF AMICI CURIAE

Amici are fifty-two scholars at American law and business schools who teach, write about, or have an interest in patent law. Amici have no stake in the outcome of this case,[1] but are interested in ensuring that patent law develops in a way that best promotes innovation. A full list of amici is appended to the signature page. Both petitioner and respondent have filed blanket letters of consent to the filing of amicus briefs.

ARGUMENT

I.

The Federal Circuit Has Abandoned the Role of Equity, in Defiance of the Statutory Language

Section 283 of the Patent Act is quite clear: district courts are granted the discretion to decide whether and under what circumstances to issue patent injunctions. The statute provides that courts "may" grant injunctions once infringement is found, but only "in accordance with principles of equity" and "on such terms as they deem reasonable." 35 U.S.C. § 283. Those principles of equity are well-established in a long line of cases, both from this Court and from the regional circuits. *See, e.g., Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (setting out the four equitable factors to be considered in granting injunctive relief: (i) whether the plaintiff would face irreparable injury if the injunction did not issue; (ii) whether the plaintiff has an adequate remedy at law; (iii) whether granting the

1. No party other than the signatories has authored or paid for any part of this brief.

injunction is in the public interest; and (iv) whether the balance of hardships tips in the plaintiff's favor); *see also Mueller v. Wolfinger*, 68 F. Supp. 485, 488 (D. Ohio 1946) (applying the factors under predecessor to Section 283). Before the creation of the Federal Circuit, regional circuits applied these principles, and occasionally denied permanent injunctive relief to patent owners based on their application of traditional equitable principles. *See, e.g., Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974); *Vitamin Technologists, Inc. v. Wisc. Alumni Res. Found.*, 146 F.2d 941, 956 (9th Cir. 1945); *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934).

The Court of Appeals for the Federal Circuit has effectively read the terms "may" and "in accordance with principles of equity" out of the statute. In no case in the last twenty years has the Federal Circuit permitted a district court to apply its equitable powers to refuse a permanent injunction after a finding of infringement.[2] Indeed, the court's grant of permanent injunctive relief is so automatic that it rarely even recites the equitable factors any longer, relying instead on an all-but-conclusive presumption that injunctive relief is appropriate. In this case, for example, the Federal Circuit made it clear that a district court had the power to deny

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2. The Federal Circuit occasionally affirms a refusal to grant *preliminary* injunctions, *see Hybritech Inc. v. Abbott Laboratories*, 849 F.2d 1446, 1458 (Fed. Cir. 1988), or to enter injunctions when the patentee has failed in some other aspect of proof, *see Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1273 (Fed. Cir. 1999) (patentee committed laches, and could not enjoin products produced during the period of its laches). But not since the 1984 decision in *Roche Products Inc. v. Bolar Pharmaceuticals Co.*, 733 F.2d 858, 866 (Fed. Cir. 1984), has it refused to enter a permanent injunction because of considerations of equity.

injunctive relief only in exceptional circumstances. *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). Further, the only exceptional circumstance the court identified was one involving imminent danger to public health, in which case the court suggested it might be appropriate to consider the public interest in access to the invention.

The contrast with copyright cases is striking. The Copyright Act includes language quite similar to section 283, and which indeed seems more expansive than the patent statute with respect to injunctive relief because it lacks explicit reference to equity. 17 U.S.C. § 502(a) ("Any court . . may . . . grant temporary and final injunctions on such terms as it may deem reasonable"). Nonetheless, this Court has repeatedly noted that section 502(a) and its predecessors do not require the grant of injunctive relief after a finding of infringement. *See Dun v. Lumbermen's Credit Ass'n*, 209 U.S. 20, 24 (1908) ("we think the discretion of the court was wisely exercised in refusing an injunction and remitting the appellants to a court of law to recover such damage as they might there prove . . ."); *New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) ("it hardly follows from today's decision [finding infringement] that an injunction . . . must issue"); *Campbell v. Acuff-Rose Music Co.*, 510 U.S. 569, 578 n.10 (1994) ("courts may also wish to bear in mind that the goals of the copyright law . . . are not always best served by automatically granting injunctive relief"). *See also Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) (denying injunctive relief after a finding of copyright infringement), *aff'd*, 495 U.S. 207, 236 (1990) (leaving undisturbed the appellate court's remedial analysis).

The Federal Circuit's mandatory-injunction standard also contrasts with the rules of real and personal property. Owners of chattels and real property are generally entitled to enjoin trespasses to their property. Generally, but not always. Courts apply the traditional principles of equity to real and personal property, and consider such factors as adequate remedy at law, the balance of hardships to the parties, and the public interest in deciding whether to grant an injunction. *See City of Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 (1933). Courts regularly award damages rather than injunctive relief against invasion of real property when the circumstances warrant. *See, e.g.*, Michael A. Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 Duke L.J. 1, 66-68 (2004) (offering examples such as averting a disaster, fleeing from an animal, reclaiming or removing a chattel, executing a court order, putting out a fire, making an arrest, and exercising free speech rights).

The Federal Circuit's failure to apply a similar standard to patent law, its willingness to consider applying only a single one of the four equitable factors governing injunctive relief, and the fact that in the last twenty years it has never in fact permitted a district court to deny a permanent injunction on equitable grounds all mean that as a practical matter it has denied courts the authority given them by section 283 to grant injunctions "in accordance with principles of equity."[3]

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3. Amicus American Intellectual Property Law Association claims that the Federal Circuit *does* apply traditional principles of equity, but that once infringement is found the irreparable harm, adequate remedy at law, and public interest factors all weigh irrefutably in favor of the patentee. That is surely wrong as a factual matter – there are at least some cases in which a patentee has a perfectly adequate remedy at law, for example. And if the Federal

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In so doing it has created a rule in patent law that is inconsistent not only with the statutory language but also with the law of injunctive relief in any other area of law.[4]

II.

Application of Equitable Factors is Important to Avoid Abuse of the Patent System

The Federal Circuit's refusal to permit district courts to apply the language of the statute has potentially serious consequences for the operation of the patent system. The goal of the equity requirement in the injunctive relief sections of the patent law is to ensure that people who actually need injunctive relief to protect their markets or ensure a return on their investment can get it, but that patent owners cannot use the threat of an injunction against a complex product based on one infringing piece to hold up the defendant and

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(Cont'd)
Circuit refuses to consider the application of most or all of the equitable factors on a case-by-case basis, it is not meaningful to speak of the court as exercising discretion at all.

4. Amici do not believe that the application of traditional principles of equity to patent cases is inconsistent with the holding in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). That case properly held that a patent owner that refused to use or license a patent that would have competed with the products it was selling was entitled to enjoin infringement, and rejected the claim that the district courts lacked jurisdiction to grant an injunction. *Id.* at 429-30. We do not believe the Court's opinion need be read to hold that injunctions were mandatory, and as noted above, the regional circuits have not done so. If this Court does read *Continental Paper Bag* to require mandatory injunctions, however, then we believe the case should be overruled for the reasons discussed below.

extract a greater share of the value of that product than their patent warrants.

Unfortunately, such inappropriate "holdups" occur on a regular basis under the Federal Circuit's mandatory-injunction standard. Patentees can obtain revenue in excess of the value of their technology by threatening to enjoin products that are predominantly noninfringing and in which the defendant has already made significant irreversible investments. In numerous cases, the parties settle for an amount of money that significantly exceeds what the plaintiff could have made in damages and ongoing royalties had they won. In these cases it is not the value of the patent but the costs to the defendant of switching technologies midstream that are driving the price. For example, one patent owner charges a 0.75% royalty for patents that don't cover industry standards, and 3.5% for patents that do cover industry standards. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property*, 17 Berkeley Tech. L.J. 1043, 1059 n. 61 (2002). The patent owner can demand nearly five times as much money once the industry has made irreversible investments in a particular technology. Many other patent owners report settling their cases for dollar amounts significantly in excess of what they could have won in royalties. The windfalls to the patentee in these cases stem from the ability to threaten to shut down the defendant's technology altogether.

Holdup is of particular concern when the patent itself covers only a small piece of the product. A microprocessor may include 5,000 different inventions, some made by the manufacturer and some licensed from outside. If a microprocessor maker unknowingly infringes a patent on one of those inventions, the patent owner can threaten to stop

the sale of the entire microprocessor until the defendant can redesign its product and retool its plant to avoid infringement. Small wonder, then, that patentees regularly settle with companies in the information technology industries for far more money than their inventions are actually worth. Defendants are paying holdup money to avoid the threat of injunctive relief. That's not a legitimate part of the value of a patent; it is a windfall to the patent owner that comes at the expense not of unscrupulous copyists but of legitimate companies doing their own research and development.

Traditional principles of equity give courts the tools to deal with this problem. Patent owners who do not manufacture the patented or any other competing good, and who seek only to license their invention at a reasonable royalty, should be entitled to injunctive relief only if they would be irreparably injured by the infringement. If the patentee has an adequate remedy at law, that fact properly weighs against granting injunctive relief. Those equitable principles would also permit courts to consider the balance of the hardships, so that the ordinary grant of injunctive relief can be avoided where it would have significant negative consequences and little affirmative purpose, as in the case of the 5,000-component invention. At a minimum, they would permit courts to delay the entry of injunctions in order to avoid holdup.

We should be clear that the application of equitable principles would not mean that injunctions are generally problematic. Patent law is a property rule, and injunctive relief is the appropriate remedy in ordinary patent cases. *See* Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 Colum. L. Rev. 2655 (1994). Injunctive relief is an important part of the patent law, and in most cases there

will be no question as to the patentee's entitlement to such relief. To begin, equity warrants an injunction absent extraordinary circumstances if the patentee practices the patent in competition with the accused infringer. Even if the patentee doesn't sell the patented product, if it sells a different product in the same market, equity should entitle it to an injunction to prevent an infringer from competing with the product it does sell. Similarly, if patentees assign or exclusively license the patent to someone who competes in the marketplace, they should also be entitled to injunctive relief under normal circumstances. And even if the patentee hasn't done these things in the past, if it is actively engaged in research and development and preparing to do so in the future equity might well support injunctive relief. Patentees also ought to be entitled to an injunction in cases where the defendant copies the idea from the patentee, even if the patentee is not participating in the market and has no plans to do so. Infringers shouldn't be able to copy an invention from the patentee, knowing that if they are caught they will still only have to pay a royalty. Even if none of these things are true, some injunctions won't lead to a risk of holdup, and so even patentees who don't meet any of the criteria listed above will often be entitled to an injunction. This is the virtue of equitable discretion – courts can grant injunctions when they are warranted, without being bound to grant them when they create more problems than they solve.

III.

Vesting Discretion in District Courts Does Not Amount to a Compulsory License

Proponents of mandatory injunctive relief deride any effort to consider the harms and benefits of an injunction as a form of compulsory licensing, something United States patent law has generally – though not always – avoided. But a judicial refusal to grant injunctive relief when equity does not support it is not the same as a compulsory license imposed by a legislature. A compulsory license is a blanket rule that permits all others to use a patent upon payment of a specified royalty, giving certainty to those who would infringe the patent that they can do so upon payment of a royalty. Equity, by contrast, considers the harms and benefits of an injunction to the parties and to the public in the context of a particular case with a particular evidentiary record. Because they are fact-specific, case-specific applications of principles of equity may give particular patentees injunctive relief against some defendants but not others, or at some times but not others, or for some markets but not others. They also leave the accused infringer at risk not only of an injunction, but of treble damages for willfulness. As we noted in the previous section, courts should not use their discretion to deny injunctive relief regularly, or even often. They should grant injunctions to patent owners who participate in the market, whether by selling the patented invention, exclusively licensing it to someone else who sells it, or selling a product not covered by the patent but which competes with the infringing product. They should also grant injunctive relief against those who copy the invention from the patentee. Giving courts the same equitable powers in patent cases to consider the appropriate remedy that they have in every other type of case is not the same as a blanket compulsory license.

IV.

Vesting Discretion in District Courts to Grant or Deny Injunctive Relief Is Consistent With International Treaty Obligations

Some will suggest that mandatory injunctions in patent cases are compelled by United States adherence to the General Agreement on Tariffs and Trade (GATT), and in particular the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). They are mistaken. It is true that TRIPs article 44.1 requires nations to grant their courts the *authority* to provide injunctive relief as a remedy for patent infringement. But the Patent Act does provide such a remedy. TRIPs does not require that injunctions always issue. *See, e.g.*, Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis 293, 297 (Sweet & Maxwell: London 2d ed. 2003) ("shall have the authority" requires only "the power to order the measures specified"). Article 44 itself permits nations to avoid granting courts even the authority to order injunctive relief in cases of innocent infringement, TRIPs art. 44.1, and where injunctive relief is "inconsistent with a Member's law," *id.* art. 44.2. Article 30 provides that "Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties." This provision allows precisely the sort of case-by-case consideration of the interests of patent owners and third parties that equitable discretion provides. Coupled with article 44, it makes it clear that TRIPs permits the United States to give its courts the power to deny injunctions in particular cases. Article 31 details the

circumstances in which nations may grant compulsory licenses. As we have seen, compulsory licensing is a more radical step than merely applying equitable rules to injunctive relief. The fact that TRIPS permits these incursions into the patent holder's exclusivity makes it implausible to interpret the Agreement to require mandatory injunctions.

In any event, TRIPs is not self-executing. S. Rep. No. 103-412, at 13 (1994) (GATT agreements "are not self-executing and thus their legal effect in the United States is governed by implementing legislation."). Section 283 was written in 1952, well before the adoption of TRIPs. It would be unreasonable to interpret a 1952 statute in a way contrary to its terms on the theory that it must be read as consistent with a treaty not adopted until four decades later. As a result, even if this Court were to conclude that TRIPs required mandatory injunctions, the proper course of action would not be for the Court to rewrite section 283, but for an aggrieved country to employ the WTO treaty process to challenge that statute. That has not been done.

CONCLUSION

Amici respectfully urge this Court to confirm the applicability of traditional principles of equity to patent law and to vacate and remand the case for consideration of those principles.

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR GENERAL ELECTRIC COMPANY, 3M COMPANY, THE PROCTER & GAMBLE COMPANY, E.I. DU PONT DE NEMOURS AND COMPANY, AND JOHNSON & JOHNSON AS AMICI CURIAE SUGGESTING AFFIRMANCE

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INTEREST OF THE AMICI[1]

The Amici herein have been at the forefront of American innovation for over 100 years. Each year they rank near the top of the annual list of United States patent recipients. They are no strangers to patent litigation: they bring suits as plaintiff patent owners, and they defend suits as accused infringers. As prominent participants in the patent world, they are well acquainted with the various circumstances that have spurred calls for change by Petitioners and their supporting amici.

With respect to "non-practicing entities," the Amici are on both sides of the aisle. The Amici sometimes market products or services that embody their patents; for other patents, they may choose never to commercialize the invention, but instead to license or sell the patent. They both enforce patents that they do not practice, and defend against plaintiffs with similar profiles. Their balanced interests make them well situated to speak to the issues before the Court.

The Amici believe that a patent holder's presumptive right to an injunction against an adjudged infringer is deeply rooted in the Constitution, the Patent Act, and 200 years of judicial precedent. The rule that injunctive relief is necessary to forestall irreparable injury to the patentee's exclusive rights reflects a historically consistent application of traditional equitable principles in cases involving unique property rights and should not be disturbed. The Amici file this brief to

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[1] The parties have consented to the filing of this brief in letters of consent on file with the Clerk. No counsel for any party had any role in authoring this brief, and no one other than the *amici curiae* provided any monetary contribution to its preparation or submission.

focus on the historic and current justifications for the general rule, on which they have relied in making investments in research and development, as well as the creation and maintenance of their respective patent portfolios. The Amici urge the Court to decline the request of Petitioners and their supporting amici to use this case to effect major changes in the patent system.

Amicus General Electric Co. is one of the largest and most diversified industrial corporations in the world. Since its incorporation in 1892, GE has developed a wide variety of products for the generation and utilization of electricity. GE is a major supplier of other technologies and services in fields as varied as healthcare, homeland security, financial services, and entertainment. Total research and development expenditures at GE were $3.4 billion in 2005. GE also has a substantial patent portfolio, with over 18,000 United States patents, 1,180 of which were issued last year.

Amicus 3M Co., which began operations in 1902, is a diversified technology company with a global presence in the health care, industrial, display and graphics, consumer and office, safety, security and protection services, electronics and telecommunications, and transportation markets. Annual research and development spending at 3M exceeds $1 billion, and to protect this investment, 3M owns over 7,000 United States patents. In 2004 alone, 3M received 585 United States patents.

Amicus The Procter & Gamble Company, founded in 1837, is the largest consumer products company in the world. It markets over 300 products, including 22 brands with one billion dollars or more in sales, in 140 countries. Research and product development are central to Procter & Gamble's success as reflected by approximately $1.8 billion in annual R&D spending and over 25,000 patents throughout the world.

Amicus E.I. du Pont de Nemours and Company is a science company. Founded in 1802, it is a world leader in science and technology in a range of disciplines, including biotechnology, electronics, materials science, safety and security, and synthetic fibers. In 2005, DuPont's research and development expenditures were $1.3 billion and it was granted approximately 400 United States patents. Since 1804, when company founder E.I. du Pont was granted DuPont's first patent, DuPont has been awarded nearly 34,000 U.S. patents.

Amicus Johnson & Johnson began as a medical products business in 1886. Today, Johnson & Johnson is the world's most comprehensive and broadly based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical, and medical devices and diagnostics markets. Johnson & Johnson's more than 200 operating companies employ approximately 115,600 men and women. In 2005, these companies collectively invested $6.3 billion in research and development, and they hold over 7,000 United States patents.

SUMMARY OF ARGUMENT

For 200 years federal courts applying the patent statute have routinely granted permanent injunctions against adjudged infringers. The principal goal of Amici herein is to explain why this presumptive rule is correct, is in accordance with the "principles of equity," and should not be lightly cast aside at the urgings of Petitioners and amici offering revisionist history and their views of patent policy. The injunction has long been the presumptive remedy in equity to forestall irreparable injury to the holders of unique property rights, such as patents. The policy arguments now directed at the Court should instead be (and in fact have been) directed to Congress, which has repeatedly rejected them in the past. Regardless of whether one believes that the patent system

needs to be fixed or reformed, this case surely is not the vehicle to do so.

The patent rights at issue here are rooted in Article I of the Constitution, which gives Congress the authority to "secur[e] for limited Times to ... Inventors the *exclusive* Right to their ... Discoveries" (emphasis added). Congress in turn has provided patentees with an express "right to *exclude*," which is the fundamental right conferred by a patent. It is hardly surprising, given this constitutional and statutory language, that the presumptive remedy against an adjudged infringer is a permanent injunction. That remedy is necessary to preserve a patentee's exclusive right and to avoid the only logical alternatives to an injunction: successive enforcement actions by the patentee, or a court-ordered compulsory license.

The presumption is fully consistent with 35 U.S.C. § 283, which provides that in cases of adjudged infringement the district courts "may grant injunctions in accordance with the principles of equity." Petitioners have focused on the word "may," but the proper focus is on Congress's reference to "the principles of equity." For centuries those principles have held that, absent extraordinary circumstances, the remedy against the infringer of a unique property right—be it real, personal, or patent—is an injunction. The historical exegesis offered by Petitioners and their supporting amici in support of a contrary view is seriously flawed.

The Amici, like other patent owners, have relied on the long-settled expectation that the patent grant is presumptively enforceable via a permanent injunction. They have guided their investments in research and development, and their decisions to obtain, acquire and maintain their patent portfolios, on this understanding. The Court should not undermine the value of those investments, and the incentives to continue those investments, based on Petitioners' errant historical and policy arguments.

Contrary to the argument of Petitioners and their supporting amici, the Federal Circuit did not create an "automatic" or "near automatic" injunction rule. The Federal Circuit acknowledged that its general rule has exceptions, and cited relevant equitable factors that could justify a district court in refusing to grant permanent injunctive relief. Its presumption is entirely sound—just three months ago, this Court reaffirmed the appropriateness of presumptions to guide district courts in the application of their discretion. Here, the Federal Circuit's decisions provide sufficient flexibility to permit district courts to deal with exceptional cases, and to tailor injunctions where appropriate to ameliorate hardship to public or private interests.

Because the presumption in favor of an injunction is well and deeply grounded, appeals to change it should be greeted with great caution. Petitioners and their supporting amici seek to loosen the rule so that permanent injunctions may more readily be denied, but the alternative they offer provides far too much leeway to district courts to deny injunctions based on a supposed evaluation of the worthiness of the patent holder, or theorized private harms to an adjudged infringer. These changes, if effected, would significantly undermine the basic right to exclude.

The policy arguments urged by Petitioners and their supporting amici are more suitable for Congressional rather than judicial resolution. Indeed, they have been considered repeatedly by Congress, which has consistently refused to amend the Patent Act to reduce the availability of injunctive relief in most cases. Moreover, where appropriate in view of policy concerns, Congress already has carved out limited exceptions to the strong presumption in favor of injunctive relief.

For all of these reasons, this Court should affirm the Federal Circuit.

ARGUMENT

I. PATENTS, LIKE OTHER UNIQUE PROPERTY RIGHTS, HAVE HISTORICALLY BEEN PROTECTED BY INJUNCTIONS

Petitioners' assertion that the Federal Circuit has adopted a new, "near automatic" rule in favor of injunctive relief that departs from normal equitable principles is belied by nearly two centuries of precedent. To the contrary, it is Petitioners who seek to overturn this settled precedent in favor of a new rule.

A. Patents Have Historically Been Protected By Injunctions

As others have pointed out, the rights at issue have their genesis in the Constitution, which expressly empowers Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the *exclusive* Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8 (emphasis added). Implementing that authority, Congress in the Patent Act provided:

> Every patent shall contain ... a grant to the patentee ... of the *right to exclude* others from making, using, offering for sale, or selling the invention ...

35 U.S.C. § 154(a)(1) (emphases added).

This Court has recognized for nearly two centuries that a patent conveys a right of exclusivity. See, *e.g.*, *Grant* v. *Raymond*, 31 U.S. 218, 243 (1832); *Special Equipment Co.* v. *Coe*, 324 U.S. 370, 378 (1945) ("The patent grant is not of a right to the patentee to use the invention, for that he already possesses. It is a grant of the right to exclude others from using it."). Because a patent confers an exclusive right, it is fundamentally a property right—the hallmark of which is the

right to exclude. See *Lingle* v. *Chevron USA, Inc.*, 125 S. Ct. 2074, 2082 (2005). In courts of equity, this right to exclude has historically been enforced by an injunction, preventing a continuing infringement of the patent.

Some amici supporting Petitioners claim that injunctive relief was not available in patent cases until 1819, which supposedly undercuts any argument that injunctive relief is necessary to secure this exclusive right. See Brief of American Innovators' Alliance as Amicus Curiae in Support of Petitioners at 3–4, 18–19 ("AIA Br."). But this argument is wrong as a matter of historical fact. In *Root* v. *Railway Co.*, 105 U.S. 189 (1881), this Court discussed the history of injunctive relief under the patent laws. Although the patent statute did not make an express provision for injunctions prior to 1819, federal courts nevertheless had granted patent injunctions prior to 1819 when, exercising their diversity jurisdiction, they had equitable powers. See *id.* at 192.[2] As evidence of this practice, this Court cited the 1812 decision in *Livingston* v. *van Ingen*, in which Chancellor Kent noted the English rule that "Injunctions are *always* granted to secure the enjoyment of statute privileges of which the party is in actual possession, unless the right be doubtful." 9 Johns. 507, 587 (N.Y. 1812) (emphasis added). The Chancellor continued:

> The principle is, that statute privileges, no less than common law rights, when in actual possession and exercise, will not be permitted to be disturbed, until the opponent has fairly tried them at law, and over-thrown them. And is not this a most excellent principle ...? The

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[2] As this Court explained in *Root*, the 1819 amendment simply closed the loophole whereby injunctive relief previously was unavailable in cases lacking diversity of citizenship. See *Root*, 105 U.S. at 191–93 (citing *Sullivan* v. *Redfield*, 23 F.Cas. 357, 360 (D.N.Y. 1825)).

> federal courts in this country have thought so; *for under the patent law of congress, they have equally protected the patent by injunction.*

Livingston v. *van Ingen*, 9 Johns. at 587 (emphasis added).

This Court, as early as 1908, expressly recognized that injunctive relief is necessary to safeguard patent rights. In *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, the Court stated:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of violation. *Anything but prevention takes away the privilege which the law confers upon the patentee.*

210 U.S. 405, 430 (1908) (emphasis added).

In 1969 this Court reaffirmed the same rule, stating that "[t]he heart of [the patentee's] legal monopoly is the right to *invoke the State's power to prevent others* from utilizing his discovery without his consent." *Zenith Corp.* v. *Hazeltine Research Corp.*, 395 U.S. 100, 135 (1969) (emphasis added). And in 1972 this Court referred to the right to exclude in 35 U.S.C. § 154 as "the basis for affording the patentee an injunction" under 35 U.S.C. § 283, and noted:

> As a result of these provisions the judgment of Laitrim's patent superiority *forecloses Deepsouth and its customers from any future use* (other than a use approved by Laitrim or occurring after the Laitrim patent has expired) of its deveiners throughout the United States. The patent provisions taken in conjunction with the judgment below also *entitle Laitrim to the injunction* it has received ....

Deepsouth Packing Co. v. *Laitrim Corp.*, 406 U.S. 518, 522–23 (1972) (emphases added); see also *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 197 (1980).[3]

B. Other Unique Property Rights Have Historically Been Protected By Injunctions

The federal courts' practice of regularly granting permanent injunctive relief against adjudged patent infringers is entirely in accordance with the common law "principles of equity." See 35 U.S.C. § 283. Those principles, as applied in cases involving the *deprivation of unique forms of property*, have historically resulted in the entry of injunctive relief as the presumptive remedy. This was of course true in suits involving real estate, which was presumed to be unique. Real property was subject to specific performance, and a continuing trespass was remedied by injunction. This Court recognized these general principles in *Archer* v. *Greenville Sand & Gravel Co.*, 233 U.S. 60, 63–64 (1914), in which the plaintiff sought to enjoin the defendant from dredging up sand and gravel from the river bottom adjacent to plaintiff's land. Having determined that the plaintiff owned the sand and gravel in question, this Court ruled that the question whether plaintiff was entitled "to relief in ~~equity ...~~ is easily disposed

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[3] Some of the amici supporting Petitioner cite 2 Joseph Story, COMMENTARIES ON EQUITY JURISPRUDENCE 238 (Fred B. Rothman & Co. 1988) (Bigelow ed., 13th ed. 1886) ("STORY"), for the proposition that "it is not a matter of course [in patent cases] for courts of equity to interpose by way of injunction." AIA Br. at 15. In the very next sentence of this passage, however, it becomes clear that Justice Story was speaking only about preliminary injunctions "when validity has not been ascertained by a trial at law." Story went on to write that when validity *has* been established, "the court will in such a case *ordinarily interfere* by way of a preliminary injunction pending the proceeding ...." STORY at 238 (emphasis added).

of." *Id.* at 65. The Court held: "[W]e think the bill shows a continuing trespass of such nature and of such character of injury that remedies at law by actions for damages would be inadequate and would, besides, entail repeated litigation." *Id.*

The New York Court of Appeals summarized the applicable principles governing real property in *Wheelock* v. *Noonan*, 108 N.Y. 179 (1888). That court, in requiring defendant to remove stones placed on another's unoccupied lots, concluded that damages at law—even in successive actions—would be an incomplete remedy for the continuing trespass:

> The defendant ... might pay those damages, and continue his occupation, and if there were no other adequate remedy, defiantly continue such occupation, and in spite of the wrong make himself in effect a tenant who could not be dispossessed. *The wrong in every such case is a continued unlawful trespass, and any remedy which does not end or may not end it is not adequate to redress the injury* or restore the injured party to his rights.

Id. at 185 (emphasis added); see also *Garagosian* v. *Union Realty Co.*, 289 Mass. 104, 193 N.E. 726 (1935) (ordering removal of encroaching structure that extended eleven inches onto neighbor's property).

Contrary to the suggestion of Petitioners and some of their supporting amici, see Brief of Petitioners at 26–28 ("Pet. Br."), the same principles have also historically applied to personal property, provided that such property is unique. Personal property that was not fungible and could not be replaced was subject to specific performance, and its deprivation remedied by injunction. See *Elliott* v. *Jones*, 101 A. 872, 873 (Del. Ch. 1917) (endorsing specific performance of "personal property peculiar and individual in character,

such as a patent [or] heirloom"). The Supreme Court of Connecticut made this point clearly in 1867, in granting specific performance of a contract to assign a patent:

> The jurisdiction, therefore, of a court of equity does not proceed upon any distinction between real estate and personal estate, but upon the ground that damages at law may not, in the particular case, afford a complete remedy.

Corbin v. *Tracy*, 34 Conn. 325 (1867); see also *Adams* v. *Messenger*, 147 Mass. 185, 188 (1888) (same).

Patent rights are by definition unique property. See *Elliott*, 101 A. at 873; *Corbin*, 34 Conn. at 325. They cannot be awarded except on proof of *novelty*. See 35 U.S.C. § 101 (requiring a "*new* and useful process, machine, manufacture, or composition of matter, or any *new* and useful improvement thereof"). And the patent itself provides its holder the "right to exclude." The "principles of equity," as traditionally applied in cases involving unique property, thus fully support a strong presumption that an injunction will enter against an adjudged patent infringer.

C. The Non-Patent Cases Relied Upon By Petitioners Do Not Establish A Contrary Rule

The arguments to the contrary of Petitioners and their supporting amici are not well taken. The non-patent property cases they cite for the most part concern non-unique property or mere temporary trespasses upon unique property. See Pet. Br. at 26, citing, *e.g.*, *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49 (1975) (involving shareholders "who allegedly sold at an unfairly depressed price" and would have been deprived of nothing but money). Although Petitioners do identify a handful of cases in which, after a balancing of equities, courts have declined to enter injunctive relief against a trespass on unique property, these cases generally fall within narrow,

recognizable exceptions. One case, for example, sounds in laches; it involved a "mutual mistake" under which "plaintiff knew the building" encroaching on her land "was being put on the lot by the defendant, and made no objection, not knowing where the line was." *Hunter* v. *Carroll*, 15 A. 17, 17–18 (N.H. 1888). Such cases do not detract from the force of the general rule, established by and reflected in the myriad cases cited above, that the presumptive remedy for infringement is and must be the injunction.

Petitioners also point to cases involving copyright and trademark as embodying a different rule, but they do not. The expectation with respect to both trademarks and copyrights is that, in most cases, an injunction will be entered against an adjudged infringer. See, *e.g.*, *Park 'N Fly, Inc.* v. *Dollar Park and Fly, Inc.*, 469 U.S. 189, 196 (1985) ("A conclusion that [trademark] infringement cannot be enjoined renders meaningless the 'exclusive right' recognized by the statute"); *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 & n.10 (1994) (observing that "in the vast majority of [copyright] cases, an injunctive remedy is justified ...." (internal quotation marks and citation omitted)). The decision in *New York Times* v. *Tasini*, 533 U.S. 473 (2001), relied upon by Petitioners, see Pet. Br. at 18, simply recognized that a public interest could justify denial of an injunction—a position no different from that of the Federal Circuit below. See *id.*, 533 U.S. at 505 (infringer claiming risk to the "historical record" from an injunction).

Finally, in addressing the "principles of equity," Petitioners and their supporting amici rely heavily on three decisions by this Court that set forth general factors for federal courts to consider in addressing requests for injunctive relief. See, *e.g.*, Pet. Br. at 18–20, citing *Amoco Prod. Co.* v. *Village of Gambell*, 480 U.S. 531 (1987); *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982); *Hecht Co.* v. *Bowles*, 321 U.S. 321 (1944). Indeed, Petitioners rely on the "four

factor test" as if it *alone* embodies the applicable "principles of equity"—excluding all other case law. See Pet. Br. at 17 ("Those 'principles' *are* the four factor test"). They derive from this test that district courts must always be afforded broad discretion to deny injunctions, regardless of the rights at issue. But as the history cited above demonstrates, it would be wrong to construe the term "principles of equity" as limited to the general test, thereby ignoring hundreds of years of precedent addressing the propriety of injunctions in the context of unique property rights. None of the decisions by this Court that Petitioners cite considered what protection is due the owner of a unique form of property. Instead, those cases confronted non-analogous, complex statutory schemes that themselves represented a balancing of interests. See, *e.g.*, *Amoco*, 480 U.S. at 545–46 (statute "established a framework for reconciliation, where possible, of competing public interests").

The teachings of this Court's cases and the others we have been discussing are clear: the presumptive remedy for an adjudged deprivation of unique property, such as a patent, is the permanent injunction. No better support for the presumption can be found than in a consideration of the alternatives. If a court denies an injunction after determining that the unique property right conferred by a patent is being infringed, the inexorable result would be either (1) that the plaintiff must file multiple successive lawsuits to recover damages for as long as the infringement continues, or (2) the court must somehow order payment for the future anticipated infringement—a compulsory license.

Neither result is consistent with traditional equitable principles. One of the principal purposes of a permanent injunction is to spare the prevailing plaintiff repeated trips to the courthouse. As Justice Story observed in his COMMENTARIES ON EQUITY JURISPRUDENCE:

> It is quite plain that if no other remedy could be given in cases of patents and copyrights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation, without ever being able to have a final establishment of his rights.

STORY, *supra*, at 236; see also *Archer*, 233 U.S. at 63–64.

Nor is a compelled license to infringe consistent with traditional equity principles. Congress did not grant patent holders merely a right to collect license fees, and courts acting in equity have been unwilling essentially to sponsor a deprivation of the statutory right to exclude. A compelled license amounts in substance to a government condemnation of a property right, in favor of the infringer, and Congress has repeatedly refused to amend the Patent Act to provide for compulsory licensing. See *infra* at 26–27.

II. THE AMICI AND OTHER PATENT OWNERS HAVE RELIED ON THE PRESUMPTIVE RIGHT TO AN INJUNCTION

This Court has long recognized and emphasized that the patent system represents a bargain between the public and inventors: in return for public disclosure of the invention, the inventor receives the right to exclude others from practicing it for a limited period of time. See, *e.g.*, *Pfaff* v. *Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998) ("[T]he patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time"); see also, *e.g.*, *Universal Oil Prods. Co.* v. *Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944); *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186–187 (1933).

The Amici have built their respective patent portfolios in reliance on this bargain. To obtain each of their patents, they were required by statute to disclose to the public, upon publication of the patent application or patent, a specification detailing the exact nature and scope of the invention. See 35 U.S.C. § 112. The Amici made these detailed disclosures of the fruits of their research and development, rather than maintaining their inventions as trade secrets, based on their understanding that they would receive an enforceable right to exclude others from practicing those inventions for the term of the patent.

The patent system thus serves to encourage the public disclosure of subject matter that is a novel and nonobvious advance beyond the prior art. The right to exclude provides patentees with the economic incentive to create and disclose to the public these novel and nonobvious inventions that others can then build upon. The public loses nothing that it had prior to the patentee's disclosure if this right to exclude is enforced against an adjudged infringer. On the other hand, the incentives to invest in costly and speculative research and to disclose the results will be diminished if, by disclosure, the patentee runs the risk that others may be allowed to freely practice the invention upon payment of a court-ordered licensing fee.

Petitioners and their supporting amici suggest that reliance by inventors on the patent bargain is of little importance because patents are handed out too freely by the United States Patent and Trademark Office ("USPTO"), and are too easily enforced once granted. While we believe this ignores the realities of the patenting process in a number of significant respects, even if the situation were as dire as Petitioner and their amici contend, the appropriate remedy is not for this Court to weaken protection for intellectual property rights, but rather for appropriate resources and

management talent to be allocated to the USPTO in the first place.

Moreover, once a patent issues, the right to exclude is far from self-enforcing. Only after years of litigation, typically costing millions of dollars, does the patentee finally reach the point where it can exercise its exclusionary right via entry of a permanent injunction. During the course of the litigation the accused infringer has the right to challenge, by dispositive motion and at trial, the validity and enforceability of the patent. And during all of that time, the remaining life-span of the patent is decreasing, and, unless a preliminary injunction has been granted, the defendant remains free to infringe.

Once a defendant has been adjudged to infringe a valid patent, the patentee's right to exclude should be respected. Absent extraordinary circumstances, the infringement should stop. Forcing the patentee into a compulsory license—and thus depriving it of the legal right it obtained in exchange for investing in innovative research and then disclosing the results of that research to the public—undermines the settled expectations and enormous investments that patentees like the Amici have made in their existing patent portfolios.

III. THE DECISION BELOW PROPERLY APPLIES "THE PRINCIPLES OF EQUITY" AND SHOULD BE AFFIRMED

Contrary to the assertions of petitioners and their supporting amici, who attempt to paint the Federal Circuit's ruling in this case as "automatic" or "near automatic," see Pet. Br. at 17–18, the Federal Circuit's general rule does not unduly restrict the exercise of discretion by district courts under the Patent Act. Section 283 of the Patent Act provides that, in cases of adjudged infringement, the district courts "may grant injunctions in accordance with the principles of equity." As we have seen, because a patent is a unique species of property affording the patentee an "exclusive"

right, the application of the traditional principles of equity will almost always lead to an injunction. The Federal Circuit's general rule observes the principles of equity and comports with the statute by, in essence, employing a presumption that an injunction will follow a final judgment of infringement absent extraordinary circumstances.

Such a presumption is entirely appropriate; indeed, just three months ago this Court adopted a presumption in order to guide the application of a district court's discretion. In *Martin* v. *Franklin Capital Corp.*, 126 S. Ct. 704 (2005), the Court considered a statute providing that district courts "may" award attorney's fees when a case is remanded to state court following removal. While recognizing that "'may' clearly connotes discretion," *id.* at 710 (internal quotation marks and citation omitted), the Court nonetheless cited Chief Justice Marshall for the proposition that a court's "discretion is a motion, not to its inclination, but to its judgment; and its judgment is to be guided by sound legal principles." *Ibid.*, quoting *United States* v. *Burr*, 25 F. Cas. 30, 35 (No. 14,692d) (CC Va. 1807) (Marshall, C. J.). Further observing that "[d]iscretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike," *Martin*, 126 S. Ct. at 710, this Court adopted a presumption that, "*[a]bsent unusual circumstances*," attorney's fees should be denied if there was an objectively reasonable basis for the removal, *id.* at 711 (emphasis added).

Moreover, the Federal Circuit's general rule recognizes exceptions in appropriate cases, a point the Federal Circuit made explicitly in this case and in numerous prior cases as well. See Pet. App. at 26a. Thus, the Federal Circuit has correctly recognized that an injunction should be denied if it

would be contrary to the public interest,[4] it has approved the denial of injunctive relief when justified by equitable doctrines such as estoppel and laches,[5] and, in a case decided shortly before the decision below, it affirmed the denial of an injunction where "the proofs required for determining future infringing activity [were] not insignificant and not amenable to a narrowly tailored order."[6]

In short, the Federal Circuit's general rule is by no means automatic. Rather, it falls squarely within the rule established by *Continental Paper Bag*, *Zenith Radio*, *Deepsouth Packing*, and *Dawson Chemical*, which in turn derives from the proper consideration of the factors commonly weighed by courts contemplating equitable relief, as we now show.

A. Irreparable Injury and the Inadequacy of Legal Remedies

Injunctive relief is "a remedy whose basis in the federal courts has always been irreparable harm and inadequacy of legal remedies." *Rondeau*, 422 U.S. at 57; *Sampson* v. *Murray*, 415 U.S. 61, 88 (1964). As shown above, in the patent context, irreparable harm and the inadequacy of legal remedies (which are essentially the same thing) flow directly from the infringement of a valid patent, and the consequent deprivation of the right to exclude. They should be found in every case where, as here, a judgment of infringement has

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[4] See, *e.g.*, *Rite-Hite Corp.* v. *Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995); *Roche Products, Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984) (on remand, district court should consider whether injunction would have "'catastrophic effect' ... on the American public health system").

[5] *Odetics, Inc.* v. *Storage Tech. Corp.*, 185 F.3d 1259, 1273 (Fed. Cir. 1999).

[6] *Fuji Photo Film Co., Ltd.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1380 (Fed. Cir. 2005).

been entered. A compulsory royalty payment to the patent owner, allowing court-sanctioned infringement to continue, would not provide the patent owner with an adequate remedy at law. See *supra* at 7–11.

B. The Balance of Harms

The next factor in the injunctive calculus is the "balance of harms" between the patent owner and the adjudged infringer. As discussed below, this factor will rarely support the denial of injunctive relief against an adjudged patent infringer.

1. *Interests of the Infringer*

To begin, there will be few, if any, instances where the harm to an adjudged infringer will weigh heavily in the equitable calculus. First of all, the patent system reflects a Constitutional and Congressional judgment that within the limited period of exclusivity, any harm to an adjudged infringer is outweighed by the benefits the public derives from granting patentees that period of exclusivity. Decisions of the Federal Circuit limiting the factors justifying denial of injunctive relief primarily to considerations of the public interest merely acknowledge this truth.

Petitioners and their supporting amici parade before the Court a number of hypothetical horribles in which the entry of injunctive relief causes the closure of factories and loss of jobs. See, *e.g.*, Pet. Br. at 47. Petitioners enhance these hypotheticals—and they are no more than that, having no factual grounding in this case—by positing that in some industries (theirs) even diligent companies cannot uncover all the patents that might apply to their product before launching it. To the contrary, Amici—companies that operate under the very same risks—believe that proper diligence generally will uncover the relevant intellectual property of others, and they have invested substantial resources to comply with the patent

laws and respect the rights of patentees.[7] Moreover, as discussed above, a patent defendant has ample opportunity to design around a patent or negotiate a mutually-acceptable license before it ever confronts the possibility of an injunction. See *supra* at 16. Even after entry of an injunction, defendants may seek a stay of injunction pending appeal. Permanent injunctive relief should not be denied because the adjudged patent infringer failed to act on these opportunities.

Furthermore, the Patent Act already provides a means of accommodating truly extraordinary harms to a defendant, should they arise. Section 283 authorizes district courts to enter injunctions "on such terms as the court deems reasonable." District courts accordingly are able to tailor the "time, place and manner" of injunctions in order to alleviate legitimate claims of hardship. Thus, while district courts are unlikely to deny an injunction entirely, they do possess "the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case." *Hecht*, 321 U.S. at 329. An adjudged patent infringer might, for example, be given time in which to shift to a non-infringing position. *Shiley, Inc.* v. *Bentley Labs., Inc.*, 601 F. Supp. 964, 970 (C.D. Cal. 1985) (granting hospitals six months to transition to non-infringing blood oxygenation equipment); see also *Immersion Corp.* v. *Sony Computer Entm't Am., Inc.*, 2005 U.S. Dist. LEXIS 4777 (N.D. Cal. Jan. 10, 2005) (ordering license fee to be paid in lieu of recall of video game consoles previously sold).

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[7] *See Committee Print Regarding Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 12 (2005) (statement of J. Jeffrey Hawley, Legal Division Vice President and Director, Patent Legal Staff, Eastman Kodak Company, on behalf of the Intellectual Property Owners Association).

2. *Interests of the Patentee*

Turning to the interests of the patent owner, the Federal Circuit's approach in this case reflects an appropriate consideration of those interests as well. First and foremost, the patent holder has a well-established interest in, and right to, exclusive control and ownership of the invention. See *supra* at 14–15. Protecting this exclusive right must be a paramount consideration in the district court's equitable balancing.

Any departure from this general rule would have significant negative consequences. Both business leaders and inventors, especially those affiliated with public companies, desire a certain degree of legal stability and certainty, particularly when it comes to their intellectual property. Corporations including these Amici have invested in research and development, engaged in merger and acquisition transactions, and paid to acquire patent rights, all in expectation of a stable enforcement environment. Any change from the general rule that a patent right will be enforced by an injunction, to a system in which the availability of injunctive relief is left to the unguided discretion of the district courts, will undermine settled property interests and harm shareholders. It will diminish the incentive system envisioned by the Constitution as businesses elect to hold innovations as trade secrets instead of disclosing them through the patent system, or even to decrease their research and development spending. It will also increase litigation costs for patent holders and the burden of litigation on the federal judiciary as infringers will have less incentive to enter into a license prior to trial.

Petitioners and their supporting amici assert that the Federal Circuit's general rule pays too little attention to the character of the patentee. See, e.g., Petr. Br. at 32–33. That line of argument has already been rejected by this Court. See *Continental Paper Bag*, 210 U.S. at 429–30. Commercial

considerations, such as whether or not the patent owner has commercialized its invention at a particular point in time, or has offered to license its patents, have no bearing on the nature of the underlying right to exclude. Every patentee appropriately enters license negotiations with the leverage of the exclusivity that was obtained through the patentee's bargain with the public; as this Court observed in *Brulotte* v. *Thys Co.*, 379 U.S. 29, 33 (1964), "[a] patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly ...." If a non-practicing entity cannot obtain injunctive relief, the "royalties as high as [the patent-holder] can negotiate" will be based not on the "leverage of [the] monopoly," but on the would-be licensee's expectation of what a court might set as a compulsory licensee fee, discounted by the risks and costs that would be borne by the patent holder in establishing infringement.

This Court has also previously stated that "[the patent holder] may keep his invention out of use. Therefore, he necessarily has the power of granting it to some and withholding it from others, *a right of selection and terms*." *United States* v. *United Shoe Machinery Co.*, 247 U.S. 32, 58 (1918) (emphasis added). Denying injunctive relief to the non-practicing entity takes from it this "right of selection and terms," which should receive no less protection than any other right secured by patent.

Finally, the law has never distinguished among the commercial interests of patent holders for purposes of awarding injunctive relief, in essence finding some more deserving of exclusive rights than others. And it is not at all clear how the "more deserving" plaintiffs would be identified. Is the supposed touchstone whether the patentee practices the patent? Or whether it purchased the patent right from another? What about corporations such as these Amici, that have portfolios containing patents they both invented and purchased, and that practice some patents but not others?

Does their ability to obtain injunctive relief vary, patent by patent? Is such an entity less deserving of its exclusive right with respect to a particular patent because, for example, it seeks to use that patent to block competitors from entering a market that is strategically important, but that the company itself has not yet, and may never, enter? The value-laden line-drawing required by a hierarchy of worthy and unworthy patent holders would simply be unworkable for courts.

C. The Public Interest

As this Court recognized a century ago in *Continental Paper Bag*, a court of equity might be justified in withholding injunctive relief "in view of the public interest." 210 U.S. at 430. The general rule applied by the Federal Circuit also recognizes a public-interest exception. See *supra* at 17–18 & n. 4.

Petitioners and their supporting amici complain that, as applied by the Federal Circuit, this public-interest exception is unnecessarily cramped, being limited only to public health emergencies. See Petr. Br. at 20. The Federal Circuit, however, has never held the exception to be so confined. While cases in which the public interest has been found sufficiently compelling happen to involve the public health, the Federal Circuit has not ruled out finding such a public interest with respect to other matters. See *Rite-Hite*, 56 F.3d at 1547–48. A case such as *City of Milwaukee* v. *Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir. 1934), in which the court declined to enter an injunction against operation of an infringing sewage treatment plant, demonstrates the kind of extraordinary circumstances necessary to overcome the presumption in favor of injunctive relief; other examples might include circumstances in which injunctive relief would affect national security or public safety.

Whatever the scope of the public-interest exception previously recognized by the lower courts, this Court should

construe that exception narrowly. Notably, Congress has acted expressly where it felt that the public interest justifies an exception to the general availability of injunctive relief. The Patent Act provides that an injunction (and other relief) is not available for infringement of a medical method patent under some circumstances. See 35 U.S.C. § 287(c). And the Judiciary Act provides that injunctions are not available to bar the use or manufacture of an invention by or for the United States government. See 28 U.S.C. § 1498; *W.L. Gore & Assoc., Inc.* v. *Garlock, Inc.*, 842 F.2d 1275, 1283 (Fed. Cir. 1988). Because Congress has provided explicitly for limited public-interest exceptions, any public-interest exception under Section 283's general "principles of equity" language should be narrowly cast. See *Babbitt* v. *Sweet Home Chapter of Cmtys. for a Greater Or.*, 515 U.S. 687, 697–98 (1995).

Moreover, public interest concerns, like concerns of harm to the infringer, may be addressed by the district court in entering an injunction "on such terms as the court deems reasonable." See *supra* at 20. For example, in *Shiley*, 601 F. Supp. at 970, the defendant argued that the public interest supported denying an injunction against use of its blood oxygenation equipment. The district court rejected the contention but held that the injunction would "contain a six-month transition period to allow an efficient and non-disruptive changeover for those institutions that now employ the [infringing] BOS oxygenator exclusively." *Id.* at 971.

Finally, there is no merit to the argument that the public interest frowns on awarding permanent injunctive relief to non-practicing entities. See, *e.g.*, Pet. Br. at 24–25, 39. This argument ignores the interest of the inventor who sold his or her patent rights. A rule denying injunctive relief to the purchasing company would greatly diminish the value of the patent, to the ultimate detriment of the inventor, and innovation generally.

Some amici argue more broadly that the constitutional purpose of promoting science and the useful arts is achieved only if a patented invention is being practiced.[8] But as noted above, see *supra* at 14, this Court has repeatedly recognized that the bargain implemented by the Patent Act consists of the grant of patents in return for innovation and *disclosure*, not innovation and practice. See *Crown Die & Tool Co.* v. *Nye Tool & Machine Co.*, 261 U.S. 24, 34–35 (1923) ("The benefit which the government intended to secure was not the making or use of the patent for the benefit of the public during the 17 years of the grant, except as the patentee might voluntarily confer it from motives of gain, but only the benefit of its public use after the grant expired").

In sum, the Federal Circuit is correct to recognize that the public-interest exception should be invoked only rarely. This Court need not determine the outer limits of the public-interest exception in this case, because the Petitioner presented no argument that an injunction against it negatively affected the public.

IV. PETITIONERS' POLICY ARGUMENTS SHOULD BE ADDRESSED TO CONGRESS, WHICH HAS PREVIOUSLY REJECTED THEM

In arguing against a general rule in favor of injunctive relief, Petitioners and their supporting amici rely heavily upon policy arguments. This Court, however, should resist deciding this case based on their broadsides against the Patent

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[8] The brief of the American Innovators Alliance relies upon Justice Story for the proposition that "courts of equity 'should look to whether the patentee has put the invention into public use' when considering whether to grant a patent injunction." See AIA Br. at 24, citing STORY, *supra*, at 238. Again, however, see *supra* at 8–9 & n.3, Justice Story was speaking here of preliminary injunctive relief, not a permanent injunction following trial.

Act, the Patent Office, and even the jury system.[9] As an initial matter, it simply is not the case that all the myriad faults said to be harming the system could possibly be remedied by a new standard for issuing permanent injunctions. Nor does the record *in this case* reflect the numerous supposed shortcomings in the patent system of which Petitioners and their supporting amici complain. The facts of the case do not establish, for example, that patent infringement is an unavoidable fact of life for large companies. The Amici here operate under the same rules, and they do not view infringement of others' patents as inevitable.

But more fundamentally, the broad-based policy positions of Petitioners and their supporting amici that the patent system is in need of repair should be—and have been—addressed to Congress, not the courts. See *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 167 (1989) ("It is for Congress to determine if the present system of design and utility patents is ineffectual in promoting the useful arts in the context of industrial design").

As an initial matter, when Congress recodified the Patent Act in 1952 it did not restrict the availability of injunctive relief under Section 283. Congress presumably accepted the judiciary's imposition of injunctions as the traditional remedy for patent infringement, including this Court's decision in *Continental Paper Bag* that injunctions should be available even for non-practicing entities. See *Commissioner of Internal Revenue* v. *Engle*, 464 U.S. 206, 224 (1984) ("We usually presume that Congress is aware of our long-standing interpretation of a statute and adopts that interpretation when it re-enacts the statute without explicit change." (internal quotation marks and citation omitted)).

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[9] See, e.g., Petr. Br. at 39–40, 48.

Moreover, Congress has the ability to amend the Act to restrict the availability of injunctive relief to address policy concerns, and has previously done so. In 1996, for example, Congress eliminated the availability of injunctions (and other relief) for infringement of medical method patents under some circumstances. See 35 U.S.C. § 287(c). Last year, however, the House Subcommittee on Courts, the Internet, and Intellectual Property circulated a committee print that would have overturned the presumption of irreparable harm in patent cases generally, but removed that provision from the bill as introduced. See *Patent Act of 2005: Hearing on H.R. 2795 Before the S. Comm. On Courts, The Internet, and Intellectual Property of the C. on the Judiciary*, 109th Cong. 5 (2005) (bill sponsor stating that "the bill replaces the [committee] print text governing injunctive relief which does not allow a court to presume the existence of irreparable harm").

In addition, Congress has repeatedly refused to amend the Patent Act to provide for compulsory licensing. In 1945 this Court recounted that "Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. It has failed to enact these proposals into law." *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 416 (1945). Subsequently, the Court observed that "compulsory licensing provisions were considered for possible incorporation into the 1952 revision of the patent laws," but "were dropped." *Dawson Chemical*, 448 U.S. at 215 & n.21. Congress has also declined to provide for the compulsory licensing of patents that are not being practiced. See *Special Equipment Co.*, 324 U.S. at 379 ("Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if the patent is not used within a specified time, but has not done so").

In sum, Congress has repeatedly evidenced its satisfaction with the strong presumption by which the judiciary has historically protected patent holders from irreparable harm, and has carved out only limited exceptions to this presumption. This Court should not provide Petitioners and their supporting amici the "reforms" of the Patent Act they have been denied by the legislature.

CONCLUSION

This Court should affirm the judgment of the Federal Circuit.

Respectfully submitted,

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MAR 1 0 2006

IN THE

Supreme Court of the United States

EBAY INC.,

Petitioner,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR *AMICUS CURIAE* STEVEN M. HOFFBERG SUPPORTING RESPONDENT

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

This brief *amicus curiae* is submitted in support of respondent by the Steven M. Hoffberg (hereinafter "Amicus"), partner of Milde & Hoffberg, LLP, who is a practicing intellectual property attorney and inventor[1]. Amicus handles cases in the areas of patent, copyright, trademark, trade secret and other intellectual property law, especially patent prosecution, licensing and strategic guidance to clients, but also in litigation.

Amicus, as many intellectual property attorneys, assists businesses in many industries that own, enforce and challenge patents as well represents individual patent owners. Amicus has had the opportunity, on occasion, to enter into licensing discussions on behalf of his clients, seeking to sell or license patents. In many such cases, the highest bidder, or even only bidder, is an entity who itself seeks to out-license the patent rights.

On the other hand, it has been Amicus' experience that corporations which produce product rarely tender offers for patent rights belonging to third parties, and thus willingly permit patents which are relevant to their business to fall into the hands of investors or entities which have a business model of licensing and enforcing patents.

Amicus submits this brief to inform the Court, as to realities of the patent system from the perspective of a patent attorney who both advises clients and who pursues commercialization and licensing of inventions himself.

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1. Pursuant to SUP. CT. R. 37.6, the amicus and its counsel represent that they have authored this brief in whole, and that no person or entity other than the *amicus curiae* and its counsel have made a monetary contribution to the preparation or submission of this brief. Petitioners and respondent have filed blanket consents with the Clerk of the Court to permit the filing of this and other briefs *amicus curiae*.

Amicus is named inventor of U.S. Patent Nos. 7,006,881, 6,865,825, 6,850,252, 6,791,472, 6,640,145, 6,429,812, 6,418,424, 6,400,996, 6,252,544, 6,230,501, 6,081,750, 5,920,477, 5,903,454, 5,901,246, 5,875,108, 5,867,386, and 5,774,357.

Nowhere is the rational and considered application of principles of patent law more important to the economy of the United States than in determining whether and to what extent alleged equitable defenses should preclude issuance of the post-trial permanent injunctions which, as this Court has recognized for almost 200 years, lie at the very heart of the patent system contemplated by the framers of the Constitution.

In order to properly advise it's clients, Amicus must be continuously apprised of the precedents of this Court which interpret the equitable defenses available to accused infringers or otherwise relate to the availability of permanent injunctive relief after a patent has been held infringed, not invalid and not unenforceable.

Likewise, in representing clients before the United States Patent and Trademark Office, Amicus must be acutely sensitive to decisions which affect the availability of injunctive relief to patent owners. The right to sue for a permanent injunction against infringement represents an important element of the total value of a patent to its owner – often 100% of that value where the development either is covered by a patent obtained purely for "defensive" purposes or represents a potentially valuable but "blocked" improvement which the innovator is unable to practice in the absence of a license.[2]

Additionally, Amicus counsels clients regarding transactions under which financing for research and development ("R&D") is obtained through the transfer of either patent rights or security interests in such rights. In the hands of either the inventor or her direct or indirect assignee, the right to exclude via a permanent injunction always represents a substantial portion of the economic justification for the

2. For a potential entrant, the injunction threat often provides the economic justification for a cross-license which enables both parties to practice the improvement. For a non-user who seeks to market a significant improvement, the potential for such an injunction is often the only leverage to guarantee that an entrenched oligopsony will either be forced to pay a fair price for use of the improvement or forego such use for the period established by Congress.

licensing, mortgage or assignment transaction necessary to obtain the financing for such R&D. Absent the continued availability of the right to exclude others via permanent injunction, R&D financing for novel but "blocked" technology often could not be obtained – either from within an innovator's own corporate structure or from some third party.

Such R&D financing can originate either from an entity already participating in the industry to which the improvement relates, an entity which wishes to enter that industry, or an entity that is willing to provide development financing but has no intention of commercializing the improvement itself by either entering the industry or integrating vertically – firms which petitioner and respondent characterize with some measure of decorum as non-practicing entities ("NPEs"), but which most *amici* supporting petitioner characterize as "patent trolls". The terminology, however, is important primarily for the polarizing rhetoric it contributes to the debate. One man's entrepreneur is often another man's patent troll, and NPEs unquestionably come in a variety of flavors.

Some NPEs (like respondent) internally develop the inventive concepts they own or control, while others merely function as financial middlemen that purchase assignments, licenses or mortgages in the improvement developments of others and plan to recoup their investment by sharing in licensing royalties or assigning or licensing to others the right to use those improvements.[3] Both types of NPEs contribute to the "progress of science and the useful arts" that the framers of the Constitution intended the patent law to promote.[4]

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3. Some *amici* supporting petitioners propose that only non-users who conduct internal R&D should be accorded the benefits of this Court's decisions in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) ("*Paper Bag*"), and *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945) ("*Special Equipment*"). The others apparently propose that this Court's rule be jettisoned entirely.

4. U.S. CONST., Art. I, § 8, cl. 8 ("the Patent Clause").

It is also possible to define NPEs more broadly as a much larger genus of all firms which own patents but have elected not to practice the subject matter of some of those patents themselves.[5] *Paper Bag* and *Special Equipment*, the seminal decisions of this Court discussing the obligation to issue injunctions despite non-use by the patent owner, involved not NPEs in the narrower sense but firms which were already industry factors but had elected not to practice their improvement inventions.

Amicus respectfully submits that any change in the long-established rule that non-use does not give rise to an equitable defense barring injunctive relief, necessarily would generate both great confusion in the district courts and substantial economic dislocation.[6]

If the rule were changed, Amicus, who neither manufactures product, nor renders services, covered by his patent, would have to review its own portfolio to determine whether any of its patent assets were threatened with unenforceability under the new rule. Moreover, all contracts and licenses relating both to Amicus' clients patent portfolios and to those patents which had been licensed in from others necessarily would have to be reviewed and reevaluated.

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5. Under that usage, many of the *amici* supporting petitioners could be characterized as NPEs since many have accumulated large portfolios of patents, some of which they are not currently practicing. As new technologies develop, however, such unused patents can become important either for purely "defensive" purposes or to provide leverage for use in obtaining operating rights in such new technology areas.

6. Petitioners and their supporting *amici* apparently believe that the threat of district court injunctions forces settlements that effectively preclude ultimate vindication before the Federal Circuit. If that is true, then the appropriate remedy probably lies in procedural changes which would be far less disruptive than any drastic substantive change to the well-settled principle that non-use does not give rise to an equitable defense barring entry of a patent injunction. For example, more liberal availability of a stay pending appeal under FED. R. CIV. P. 62(c) in patent injunction cases might be explored.

In many instances, the security interests which had been designed to guarantee recoupment of R&D financing costs would prove worthless. Under such circumstances, venture capital markets would be severely stressed and might well dry up entirely.

In the course of evaluating some of the alleged problems of which petitioners and their *amici* complain, it is possible that Congress ultimately may conclude that injunctive relief should be eliminated for some narrow class of patents or even for some industry segment.[7] Amicus respectfully submits that, for at least three separate reasons, this Court should reject petitioners' broader assault on the injunction statute and leave resolution of their alleged problems to Congress.

POSITION OF *AMICUS CURIAE* REGARDING QUESTIONS PRESENTED

The Contentions Of Petitioners And Supporting *Amici*

After a trial at which they failed to establish any cognizable equitable or legal defenses,[8] petitioners were adjudicated willful infringers of one of two valid "business methods" patents

7. As pointed out in the brief *amicus curiae* of the Franklin Pierce Law Center professors in support of respondent ("FPLC Br."), Congress already has enacted compulsory licensing in certain narrow areas such as under the Clean Air Act (FPLC Br. at 3-4).

8. At various points, petitioners' brief on the merits ("Pet. Br.") suggests (a) that the business method claims of respondent were "vaguely defined" (Pet. Br. at 2) or merely "vague" (Pet. Br. at 38); (b) that the district court found "compelling evidence" of non-infringement (Pet Br. at 6); (c) that business method claims are associated with a "heightened possibility of invalidity" (Pet. Br. at 11); (d) that the timing of the filing of respondent's amended claims might somehow give rise to a defense of equitable estoppel or prosecution history estoppel (Pet. Br. at 4-5); and (e) that respondent's conduct at a June 2000 meeting also might give rise to a defense of equitable estoppel (Pet. Br. at 5-6). Those alleged defenses, however, were merged into the district court's judgment and are not before this Court.

relating to fixed-price purchase technology. They now seek to sustain the district court's refusal to enter a permanent injunction, which the court below reversed as an abuse of discretion, on the principal ground that respondent does not compete directly with them or practice its patents. This failure to practice, the district court found, somehow altered the balance of equities to the point where the public interest in "the progress of science and the useful arts" no longer compelled issuance of a permanent injunction.

Petitioners clearly imply that this Court should abandon the long-settled rule of *Paper Bag* and *Special Equipment* in any case involving business methods patents. Some supporting *amici* explicitly endorse that same suggestion. Others proffer a disparate and sometimes inconsistent catalogue of complaints, all of which likewise allegedly should compel rejection of the *Paper Bag* rule whenever established by the evidence.[9]

In addition to the class of business methods patents (and a subcategory of such patents that allegedly could impede First Amendment free speech by shutting down "blogs"), such complaints are said to arise from both overly broad claims of "dubious technical merit" on the one hand and narrow improvement claims on the other (neither of which, it is said, should be deemed sufficient to support an injunction); infringement determinations predicated upon the presence of "trifling", "de minimis" or "trace" amounts of a claimed chemical (or crystalline form of that chemical); the alleged widespread prevalence of "inadvertent infringement"; "patent thickets" which make it difficult and expensive to secure freedom to operate opinions from counsel; "submarine" patents which result from "gaming" the continuation practice specified

9. Apparently, *amici* do not claim that any of these additional circumstances were established by the evidence presented to the district court, but rather suggest only that they present additional theoretical justification for abandonment of the rule of Paper Bag and Special Equipment.

by the PTO's regulations; "gaming" of standards issued by SSOs; "holdups" and "highjackings" which can lead to "windfalls" and "disproportionate settlements"; and the alleged insufficiency of the new eighteen-month publication rule.[10]

The implication of this catalogue of complaints is that *Paper Bag* and *Special Equipment* should be overruled and Section 283 should be interpreted to vest district courts with discretionary power to deny permanent injunctive relief to a patentee who is not practicing his invention commercially whenever the infringement defendant can establish one of these alleged inequities. Neither petitioners nor their supporting *amici*, however, even attempt to provide any rational justification for addressing those complaints to this Court. Instead of bringing their complaints to Congress, where a number of proposals addressing some of the same putative problems already are pending, petitioners and their supporting *amici* ask this Court to alter its prior definitive interpretation of an injunction statute which has been re-enacted without any substantive change on a number of separate occasions – most recently in the 1952 codification of the patent law.

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10. It is of at least some historical interest that many of these complaints echo remarkably similar complaints voiced by the telephone and automobile industries more than a century ago. However, American Bell purchased the crucial improvement patents that had threatened its business shortly after this Court's decision in *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897) ("*Bell Telephone*"), and by the third anniversary of the Paper Bag decision, Henry Ford had succeeded in overcoming the infamous Selden "submarine" patent without the need for any change in the injunction statute or any other provision of the patent law. *See* H.C. Wegner, "Injunctive Relief: A Charming Betsy Boomerang" at 4 and 33-36, 1st Annual Northwestern Journal of Technology and Intellectual Property Symposium: IP Litigation in the 21st Century, Chicago (February 24, 2006) (available at *www.foley.com*) ("Wegner Paper"). The amicus understands that a further edited version of the Wegner Paper is to be published in the Northwestern Journal of Technology and Intellectual Property.

The amicus respectfully submits that this Court should refuse the invitation to create novel equitable defenses and leave to Congress the question of whether and to what extent there should be any alteration to the long-established rule that non-use does not represent an equitable defense barring entry of a permanent injunction.

Question 1

Question 1 should be answered in the negative. The Court of Appeals for the Federal Circuit did not err in holding that the district court's refusal to enter a permanent injunction represented an abuse of discretion. The district court predicated its finding that respondent had suffered no irreparable harm upon its conclusion that respondent "does not practice its inventions and exists merely to license its patented technology to others".[11] That conclusion was flatly inconsistent with the controlling *Paper Bag* and *Special Equipment* decisions of this Court – which the district court failed even to discuss.[12]

The "finding of infringement" to which Question 1 is addressed always presupposes either (a) parallel findings that the infringed patent also is not invalid and not unenforceable by virtue of any available equitable affirmative defenses, or (b) a waiver by the accused infringer, either explicitly or under the doctrine of *res judicata*, of any invalidity or equitable affirmative defenses either actually raised or which could have been raised at the infringement trial.

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11. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp.2d 695, 712 (E.D. Va. 2003).

12. In finding that "money damages are an adequate remedy to compensate" respondent "for any continuing infringement" (*id.* at 713), the district court cited *Foster v. American Foundry & Mach. Co.*, 492 F.2d 1317, 1324 (2d Cir. 1975) ("*Foster*") – another decision that had failed to discuss either Paper Bag or Special Equipment

Because of the central importance of the right to exclude under the Constitutional mandate and the controlling case law, where none of the traditional equitable defenses have been made out, the discretion of a district court to refuse a permanent injunction is indeed limited to "exceptional circumstances" – even where the patentee does not practice the patent. Because the right to a permanent injunction is crucial to the patent grant, after all alleged equitable defenses have been disposed of at trial, usually only circumstances relating to the public health and safety will prevent entry of a permanent injunction.[13] The pertinent provision is Section 283 of the patent statute, 35 U.S.C. § 283, which provides:

> The several courts having jurisdiction under this title **may** grant injunctions **in accordance with the principles of equity** to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.[14]

(Emphasis supplied). The language of the statute covers both preliminary and permanent injunctions. The "principles of equity" which the district courts are required to consider include not merely the separate balancing tests applicable to preliminary and permanent injunctions,[15] respectively, but also the entire

13. However, the Federal Circuit recognizes that both damages and permanent injunctions will sometimes be denied based upon equitable considerations unrelated to the public health and safety. *See, e.g., A.C. Auckerman Co. v. R.L. Chades Const. Co.*, 960 F.2d 1020 (Fed. Cir. 1992) (en banc) (laches and equitable estoppel).

14. The language of this statute has remained virtually the same since its initial enactment in 1819. The statute was last re-enacted as part of the 1952 codification of the patent statute.

15. In their brief on the merits, petitioners are thus incorrect in purporting to explain the language of the statute as limiting "[t]hose familiar equitable principles" to "irreparable injury, adequacy of the remedy at law, balancing of the hardships, and the public interest" (Pet. Br. 2).

range of equitable defenses, including most prominently the unclean hands principle and the doctrine of patent misuse.

Question 2

Question 2 likewise should be answered in the negative. The Court's *Paper Bag* and *Special Equipment* decisions concern only one aspect of a lengthy and far broader colloquy between this Court and Congress as to which alleged equitable defenses will be deemed sufficient to bar permanent injunctive relief under Section 283 and its predecessor statutes – which have remained virtually unchanged since 1819. When Congress disagrees with a decision of this Court which affects the entitlement of a patentee to a permanent injunction, it can and will overrule that decision by changing the patent statute. In fact, Congress did just that in 1952 and again in 1988 when it concluded that this Court had unduly expanded the misuse doctrine in two separate respects – as the Court recognized in *Dawson Chemical* and reaffirmed just last week in *Independent Ink*.[16]

In sharp contradistinction, with full knowledge of this Court's *Paper Bag* and *Special Equipment* rulings, Congress re-enacted Section 283 in 1952 without any substantive alteration.[17]

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16. *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S.176 (1980) ("*Dawson Chemical*"); *Illinois Tool Works Inc v. Independent Ink, Inc.*, 547 U.S. __, No. 04-1329 (Mar. 1, 2006) ("*Illinois Tool Works*").

17. Paper Bag itself noted that, with the exception of a single four-year experiment with a working requirement for alien patentees, Congress had never modified the non-user patentee's right to a permanent injunction, and previously had rejected a number of specific proposals to make such a change (210 U.S. at 429). In *Hartford-Empire Co v. United States*, 329 U.S. 386, 433 (1945) ("*Hartford-Empire*"), this Court noted that, in the intervening 37 years, Congress had rejected no less than twelve separate proposals to alter the Paper Bagb rule by imposing a forfeiture or compulsory license for a patentee's non-use. (Cont'd)

HISTORICAL CHRONOLOGY

The amicus notes that a number of the *amicus* filings, including some in support of petitioner, set forth useful narratives of the historical background for this Court's *Paper Bag* and *Special Equipment* decisions within the broader perspective of the development since 1819 of the patentee's right to a permanent injunction pursuant to the Constitutional mandate that the rights of a patentee should be "exclusive". In the spirit of SUP. CT. R. 37.1, the amicus will attempt to avoid repetition of that lengthy history except to the extent necessary for the purpose of supporting the new and different arguments of the amicus.

In the following historical chronology, therefore, the amicus will attempt to minimize duplication by making reference where appropriate to one or more of the following previously filed briefs (a) the brief of respondent opposing the grant of *certiorari* ("Opp."), (b) the brief *amici curiae* in support of neither party of the American Intellectual Property Law Association and Federal Bar Council ("AIPLA/FBC Br."), (c) the FPLC brief, (d) the brief *amicus curiae* in support of neither party of the Bar Association of the District of Columbia ("BADC Br."); and the brief of of Qualcomm Incorporated, *et al.* in support of respondent opposing *certiorari* ("Qualcomm Br.").

In 1803 this Court held that domestic law should, to the extent possible, be construed in a fashion consistent with the treaty obligations of the United States. *Murray v. The Schooner Charming Betsy*, 6 U.S. 64 (1803) ("*Charming Betsy*").

In 1813, six years before enactment of the first federal patent injunction statute, Chief Justice Marshall found that the

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(Cont'd)

In *Dawson Chemical*, 448 U.S. at 215 n.21, moreover, the Court noted both that compulsory licensing again had been proposed but not enacted in the 1952 codification of the patent laws, and again proposed but rejected in 1959.

"inchoate property right" of a patent "is exclusive". *Evans v. Jordan*, 8 F. Cas. 872, 873 (C.C.D. Va. 1813), *aff'd*, 13 U.S. 199 (1815) (Opp. at 15-16).

In 1814 Justice Story addressed the "blocking" situation and noted that the "original inventor of a machine is exclusively entitled to a patent for it. If another person invent an improvement on such machine, he can entitle himself to a patent for such improvement only, and does not thereby acquire a right to patent and use the original machine". *Odiorne v. Winkley*, 18 F. Cas. 581, 582 (C.C.D. Mass. 1814).

In 1817 Justice Story articulated an early formulation of the patentee's bargain with the public, noting that the "exclusive patent-right" is conferred "as an encouragement and reward for his ingenuity". *Lowell v. Lewis*, 15 F. Cas. 1018, 1020 (C.C.D. Mass. 1817).

In 1819 Congress enacted the first injunction statute under the federal patent law. In the preceding years, beginning with the federal patent act of 1790, injunctive relief had been available to a patentee in the state courts and often in the federal courts as well.[18]

In 1824 Justice Story again discussed the "exclusive right" of the patentee in *Ex parte Wood*, 22 U.S. 603, 608 (1824) (Opp. at 16; Qualcomm Br. at 8).

In 1832 Chief Justice Marshall announced that to the "exclusive enjoyment of" the patentee's right to exclude during the period fixed by Congress, "the public faith is forever

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18. "The acts of Congress, prior to 1819, made no provision for any suit in equity by the owner of a patent, nor for his enjoyment of any form of equitable relief. Nevertheless, the Federal courts, following the decisions of the lords chancellors, held that equity had jurisdiction over patents for inventions, and could exercise its ordinary power in behalf of the patentee, whenever these were needed to give complete effect to the statue under which the patent had been granted."

3 WILLIAM C. ROBINSON, THE LAW OF PATENTS AND USEFUL INVENTIONS § 1082.

pledged". *Grant v. Raymond*, 31 U.S. 218, 242 (1832) (Opp. at 15; Qualcomm Br. at 8).

In 1852 Chief Justice Taney announced in *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852), that the "franchise which the patent grants, consists altogether in the right to exclude everyone from making, using or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent." (Opp. at 16)

In 1897 this Court, in a passage later quoted in *Paper Bag* (210 U.S. 424), rejected the notion that an inventor of a patented improvement "occupies, as it were, the position of a quasi trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible." *Bell Telephone*, 167 U.S. at 250 (FP Br. at 5; Qualcomm Br. at 9).

In 1902 Congress enacted enabling legislation adopting the provisions of the 1897 Brussels version of the Paris Convention.

In 1908 this Court decided *Paper Bag* (Opp. at 3, 16; AIPLA/FBC Br. at 3,9, 22; FP Br. at 5-6; BADC Br. at7; Qualcomm Br. *passim*).

In 1911 Henry Ford successfully freed the automobile industry from the threat of the Selden patent. Wegner Paper at 3, 35. *See also Columbia Motor Car Co. v. C.A. Duerr & Co.*, 184 Fed. 893, 896 (2nd Cir. 1911).

In 1922 this Court reiterated that "the franchise secured by the patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee". *United Shoe Mach Co. v. United States*, 258 U.S. 451, 463 (1922) (AIPLA/FBC Br. at 9).

In 1923 the *Paper Bag* rule was again endorsed in *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923) ("*Crown Die & Tool*") (Opp. at 18; Qualcomm Br. at 9).

In 1942 this Court ruled that patent tying represented an equitable defense to an infringement suit under the misuse doctrine. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (FP Br. at 4).

In 1944 the Court ruled that a patentee who initiated a suit for contributory infringement was guilty of a *per se* misuse. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) ("*Mercoid I*").

In 1945 this Court again explained that the owner of a patent "is not in the position of a quasi-trustee for the public" and "has no obligation either to use it or to grant its use to others". So long as "he discloses the invention in his application so that it will come into the public domain at the end of the" fixed "period of exclusive right he has fulfilled the only obligation imposed by the statute." *Hartford-Empire*, 323 U.S. at 432-33 (AIPLA/FBC Br. at 22; Qualcomm Br. at 9).

In 1945 Chief Justice Stone reiterated the conclusion reached 37 years earlier in *Paper Bag* that "failure of the patentee to make use of the patented invention does not affect the validity of the patent". *Special Equipment*, 324 U.S. at 378-79 (FPLC Br. at 7-8).

In 1952 Congress codified the patent law in a comprehensive enactment that included both the present form of Section 283 and Sections 271 (c) and (d) (1) through (3) which were designed to overrule the result of *Mercoid I*.

In 1962 the Court ruled that a presumption of market power for antitrust tying purposes could be presumed from the existence of a patent or copyright. *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) ("*Loew's*").

In 1967 the Stockholm Revision of the Paris Convention was promulgated in its current form.

In 1969 in an opinion by Justice White the Court confirmed that the "heart of" the patentee's "legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent". *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) ("*Zenith v. Hazeltine*") (Opp. at 18).

In 1974 Chief Justice Burger characterized the patentee's bargain with the public as involving "adequate and full disclosure so that upon expiration" of the period of exclusivity "the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use". *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974) ("*Kewanee Oil*") (citation omitted) (Opp. at 2, 14 n.5).

In 1980 the Court (a) recognized that Congress had legislatively overruled *Mercoid I* in the 1952 enactment of Sections 271(c) and 271(d)(1) through (3) of the patent statute, and (b) again stated that the "essence of a patent grant is the right to exclude others from profiting by the patented invention". *Dawson Chemical*, 448 U.S. at 176 (Opp. at 18; AIPLA/FBC Br. at 9; FPLC Br. at 8-9; Qualcomm Br. at 9)

In 1988 Congress enacted Section 271(d)(5) of the patent statute to legislatively overrule the presumption of *Loew's*.

In 1989 the Court articulated still another formulation of the patentee's bargain with the public, noting that the patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances" so that "upon expiration" of the period of exclusivity "the knowledge inures to the people, who are thus enabled without restriction to practice it and profit from its use". *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989) (citation omitted) ("*Bonito Boats*") (Opp. at 3; AIPLA/FBC Br. at 12; FPLC Br. at 2)

In 1994 the Agreement on Trade Related Aspects of Intellectual Property ("TRIPS") was negotiated as part of the creation of the World Trade Organization ("WTO").

In 1998 Justice Stevens articulated yet another formulation of the patentee's rights and obligations drawn largely from *Bonito Boats. Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998) ("*Pfaff*") (AIPLA/FBC Br. at 12; FPLC Br. at 2).

In 2001 the Administration threatened Bayer's exclusive manufacturing position on Cipro when it was feared that additional capacity might be required in the wake of the anthrax scare (FPLC Br. At 9).

In 2001 the United States challenged Brazilian compulsory licensing legislation as inconsistent with the requirements for valid local working requirements under the TRIPS Agreement (BADC Br. at 10).

In 2006, despite considerable Congressional discussion of the potential for an H5/N1 avian flu emergency, the Administration has not yet openly pressed Roche to license Tamiflu (FPLC Br. at 10).]

In 2006 the Court recognized that the enactment of Section 271(d)(5) by Congress had legislatively overruled Loew's. *Illinois Tool Works*, 547 U.S. at __, Slip Op. at __ (Mar. 1, 2006).

SUMMARY OF ARGUMENT

Rule 37.1

The amicus is mindful of this Court's directive that a brief for *amicus curiae* should be limited to "relevant matter not already brought to its attention by the parties". SUP. CT. R. 37.1.[19] The amicus therefore will endorse but will not repeat certain arguments previously set forth in other briefs.

19. The amicus has carefully reviewed the briefs of the parties and *amici* already on file, and every effort has been made to comply (Cont'd)

In the first place, the amicus adopts and will not repeat in its legal argument the cogent analyses set forth in three of the previously filed briefs as to why the district court's refusal to issue a permanent injunction under Section 283 represented an abuse of discretion that the Federal Circuit panel properly reversed (Opp. at 3-5, 10-14; AIPLA/FCB Br. at 8-19; FPLC Br. at 11-14). Additionally, references to other arguments set forth in previously filed briefs will be made throughout the Argument.

Point I

In Point I of the Argument, the amicus sets forth several non-duplicative reasons why, at this late stage, the Court should leave to Congress the decision as to whether to change the rule of *Paper Bag* and *Special Equipment* or otherwise expand the scope of the equitable defenses available to an accused infringer under Section 283.

In Point IA of the Argument, the amicus explains the significance of (1) the presence of two factors which provide "special force" for adhering to the rule of *Paper Bag* and *Special Equipment* under the *stare decisis* doctrine; (2) the Congressional re-enactment of an unchanged version of the statute in the 1952 codification despite full knowledge that this Court's *Special Equipment* decision had reaffirmed the *Paper Bag* rule only seven years previously; (3) the contemporaneous decision of Congress to overrule the 1944 *Mercoid I* case in the same 1952 enactment;[20] and the 1988 enactment of Sections 271(d)((5) of the patent statute, 35 U.S.C. §§ 271(d)(5);[21] and (4) the repeated refusals by Congress to enact any of the

(Cont'd)
with the spirit of Rule 37.1 by minimizing to the extent possible any overlap in factual subject matter and argumentation between this brief and those prior submissions.

20. *Dawson Chemical*, 448 U.S. at 614.

21. *Illinois Tool Works*, 547 U.S. at __, No. 04-1329, slip op. at 12-13.

numerous legislative proposals to make forfeiture or compulsory license the consequence of misuse.

In Point IB of the Argument, the amicus notes that citations to this Court by petitioners and their supporting *amici* of decisions setting forth standards for the issuance of injunctions under other federal statutes are inapposite. Injunction standards under statutes which do not arise under the Constitutional mandate of exclusivity are simply irrelevant to Section 283, which was designed to implement the "exclusive right" of the patentee which lies at "the heart of his legal monopoly".[22]

Point II

In Point IIA of the Argument, the amicus explains why, contrary to the assertions of petitioners and their supporting *amici*, the decisions of this Court supporting the right of a non-practicing entity patentee to exclude others from the practice of his claims "for limited times" is fully consistent with the objectives of the Constitutional mandate to "promote the progress of science and the useful arts".

In Point IIB of the Argument, the amicus explains why retention of the rule of *Paper Bag* and *Special Equipment* is economically important (1) for legitimate "defensive" patenting purposes; (2) to assure continued investment in R&D financing; and (3) to facilitate recovery of fair value for the contribution made to the "progress of science and the useful arts" by significant improvement patents, particularly those made and developed by smaller NPE inventors and investors.

In Point IIC of the Argument, the amicus submits that the efficient administration of justice also favors retention of the *Paper Bag* rule because unavailability of the permanent injunction would only create confusion in the district courts and the prospect of multiple damages trials.

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22. *Zenith v. Hazeltine*, 395 U.S. at 135.

Point III

In Point III of the Argument, the amicus comments upon the assertions of three *amici* regarding possible constraints on the interpretation of Section 283 which may arise from the treaty obligations of the United States under (a) the Paris Convention,[23] and (b) the TRIPS Agreement.[24] The amicus believes that the *Charming Betsy* canon presents an independent ground for barring re-interpretation of Section 283. Professor Lemley's *amicus* brief on behalf of the 52 professors supporting petitioners ("the Lemley brief") dismisses the notion that any problems with treaty obligations might arise from reversal in this action. The amicus respectfully disagrees.

As the BADC and FPLC briefs astutely point out, recent trade dip omacy and bilateral compromises by the Executive Branch appear motivated by a belief that, even where a foreign statute imposes a local working requirement, the TRIPS Agreement may oblige its members to provide for injunctive relief against patent infringement. *A fortiori*, in the absence of a Congressional enactment limiting the right to an injunction for non-use in this country, any judicial alteration of the rule of *Paper Bag* and *Special Equipment* likewise might run afoul of the TRIPS Agreement. It also seems clear that it would be difficult to justify any such judicial change as "legislative measures" under Art. 5A(2) of the Paris Convention.

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23. Paris Convention for the Protection of Industrial Property, Sept. 5, 1970, 21 U.S.T. 1583, 828 U.N.T.S. 305.

24. Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Dec. 15, 1993, 33 I.L.M. 81 (1994).

ARGUMENT

Point I

Any Novel Inroads On The Availability Of Injunctive Relief To Non-Practicing Patent Owners Under Section 283 Would Offend The Rule Of *Paper Bag* And *Special Equipment*

A. Affirmance Is Required Under The Rule Of *Paper Bag* And *Special Equipment*

Under the Patent Clause, the framers of the Constitution left to Congress the determination of how best to guarantee the "exclusive right" of the patentee "for limited times" in order to "promote the progress of science and the useful arts".[1] Since at least 1819 (when the first statute authorizing permanent injunctive relief to patentees in the federal courts was enacted), this Court consistently has recognized that the right to a permanent injunction represents the central element – and usually the **only** element – of the exclusive right that a patentee receives in return for her contribution to "the progress of science and the useful arts".

The availability of injunctive relief when equitable defenses are asserted always must be determined against the background of the origin of that patent right in the Constitution. Another background factor is that this Court's prior rulings in *Paper Bag* and *Special Equipment* represent a relatively narrow but important facet of a far broader dialogue regarding the availability of injunctive relief generally in patent cases.

1. The *Stare Decisis* Doctrine

In *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989), this Court said that only "special justification" will permit departure from the doctrine of *stare decisis* because the principle is of such "fundamental importance to the rule of law". Additionally, the Court found that the doctrine applies with

"special force in the area of statutory interpretation" for a reason that should control disposition of this case:

> in the area of statutory interpretation, . . . unlike in the context of constitutional interpretation, **the legislative power is implicated and Congress remains free to alter what we have done.**

(Citations omitted) (emphasis supplied). This Court's interpretations of the injunction statute in *Paper Bag* and *Special Equipment* unquestionably qualify as "statutory interpretation" under this rubric.

An additional ground for refusing to depart from the *stare decisis* principle in the case of *Paper Bag* and *Special Equipment* can be found in *Payne v. Tennessee*, 501 U.S. 808, 828 (1991), where the Court announced that the factors favoring *stare decisis* "are at their acme in cases involving property and contract rights, where reliance interests are involved".

The patentee's right to exclude under Section 283 was both codified by Congress and involves property and contract rights. *See Hartford-Empire*, 323 U.S. at 415 ("That a patent is property, protected against appropriation both by individuals and by government, has long been settled."); *Crown Die & Tool*, 261 U.S. at 40 ("Patent property is the creature of statute law").

2. Congressional Re-Enactment Of Section 283

This Court has held that Congressional inaction and the passage of time also will enhances the applicability of the *stare decisis* doctrine. In *Shepard v. United States*, 544 U.S. 13, 20-21 (2005), the Court said:

> In this instance, time has enhanced even the usual precedential force, nearly 15 years having passed since *Taylor* came down, without any action by Congress to modify the statute as subject to our understanding.

A fortiori, since Congress re-enacted virtually the same injunction statute in 1952, 44 years after *Paper Bag* and seven years after *Special Equipment*, the *stare decisis* principle necessarily must mandate affirmance.

What is more, the repeated rejection by Congress of the various forfeiture and compulsory licensing proposals discussed in *Paper Bag*, *Hartford-Empire* and *Dawson Chemical* only adds weight to the conclusion that alteration of the rule should be left to Congress. Indeed, yet another proposal to make non-use a bar to injunctive relief was dropped from H.R. 2795 just last year (see BADC Br. at 8-9).

3. Congressional Disagreement With Misuse Decisions

Congress took no remedial action when this Court refused to create a novel equitable defense in *Paper Bag*; it took no action when that ruling was followed in *Special Equipment*; and it has repeatedly and steadfastly refused to enact any legislation tantamount to creation of that same putative equitable defense of non-use.

When this Court did create a novel equitable defense in *Mercoid I*, however, Congress vitiated that ruling by enacting Sections 271(c) and (d)(1) through (3) as part of the 1952 patent act codification. When this Court created an evidentiary presumption having the effect of making an equitable defense to a patent injunction more widely available in *Loew's*, Congress obviated that result by enacting Section 271(d)(5) in 1988.

Congress has repeatedly demonstrated that it is capable of dealing with decisions of this Court with which it disagrees. Its failure to deal with the rule of *Paper Bag* and *Special Equipment* for 98 years speaks volumes.

B. Injunction Cases Construing Other Statutes Are Inapposite

Most of the injunction cases cited by petitioners and their supporting *amici* relate to federal statutes other than the patent law.[25] None of those cases, therefore, involved the patentee's bargain with the public or required consideration of the Constitutional guarantee of exclusivity which the patentee receives in return for the disclosure of his invention.

By way of example, the case other than *Paper Bag* most cited by petitioners is *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982) ("*Romero-Barcelo*"). Another case frequently cited by petitioners and their supporting *amici* is *Amoco Prod. Co. v. Vill. of Gambell, Alaska*, 480 U.S. 531 (1987) ("*Amoco*"). *Romero-Barcelo* involved injunctive relief under the Federal Water Pollution Control Act ("FWPCA") and *Amoco* involved injunctions to prevent violations of the Alaska National Interests Lands Conservation Act ("ANILCA") (Pet. Br. 19). Manifestly, those statutes were not mandated by the Constitution and decisions construing them have nothing whatsoever to do with the injunctive relief necessary to preserve the "exclusive right" of the patentee under the Patent Clause to which "the public faith is forever pledged".

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25. Foster is the only patent injunction case cited prominently by petitioners and their supporting *amici*. It was decided eight years before the Federal Circuit was established and, as already noted, failed to cite either *Paper Bag* or *Special Equipment*.

Point II

Any Novel Inroads On The Availability Of Injunctive Relief To Non-Practicing Patent Owners Under Section 283 Could Thwart "The Progress Of Science And The Useful Arts"

A. Disclosure By The Patentee Is All That Is Required

Contrary to the assertions of petitioners and some of their supporting *amici*,[26] this Court has repeatedly concluded that the right of a non-practicing entity patentee to exclude others from the practice of his claims "for limited times" is fully consistent with the Constitutional objective of promoting "the progress of science and the useful arts".

In *Bell Telephone*, the Court ruled definitively that the patentee is not in "the position of a quasi trustee for the public" and is under no "moral obligation" to make his invention available "as soon as is conveniently possible". 167 U.S. at 250. This language was explicitly endorsed in the *Paper Bag* ruling itself. 210 U.S. at 424. In *Hartford-Empire*, the Court paraphrased the *Bell Telephone* language and announced that the benefit to the public arises principally "at the end of" the "period of exclusive rights". 323 U.S. at 432.

The inventor's contribution to the "progress of science and the useful arts" is now disclosed to the public either upon issuance of the patent or eighteen months after filing, whichever occurs first. Members of the public are thereupon free to engage in non-commercial experimentation regarding that disclosure

26. Perhaps the most extreme example of this view is the argument that commercialization by a patentee is required because the word "progress" in the Patent Clause of the Constitution must be construed to mean "distribution". See the *amicus* brief of Professor Malla Pollack and other legal scholars in support of petitioners ("Pollack Br."). Thus, *amici* argue that the "Constitution gives Congress the power to enact only such patent statutes as promote the distributionof useful technology" (Pollack Br. at 4) (emphasis supplied).

and to devise and file patent applications regarding improvements thereto, but are not free to practice the patent without the permission of the patentee prior to the expiration of the term established by Congress.

These basic principles have been reinforced by the Court's subsequent decisions in *Kewanee Oil* (416 U.S. at 480-81), *Bonito Boats* (489 U.S. at 150-51) and *Pfaff* (525 U.S. at 63).

B. The Economics Of Non-Use

As the foregoing analysis demonstrates, non-use by a patentee during the term of his exclusivity is presumptively legitimate under the Patent Clause and the patent statute. There are, moreover, a number of economic justifications for the decision by a NPE not to commercialize.

In *Paper Bag* itself, the Court discussed possible reasons for why the patentee had "locked up" its invention (210 U.S. at 427), and found that capital requirements for replacement of older machines could "make more money" (*id.* at 428). The patentee's purpose in *Special Equipment* was to prevent appropriation of the value of another invention by securing a patent on a less economic alternative.

The dual role of "defensive" patenting already has been explained, as has the need to encourage the continued supply of the capital to finance R&D. Indeed, several federal courts have recognized the fact that the one purpose of the assignment statute, 35 U.S.C. § 261, is to ensure that capital is available to inventors who are unable to finance R&D internally. *See, e.g., S.C.M. Corp. v. Xerox Corp.*, 645 F.2d 1195 (2nd Cir. 1981).

As a practical matter, moreover, barriers to entry will often prevent a relatively small firm that is active in an unintegrated segment of a market or on the fringes of a large industry from direct commercialization of an improvement. By the same token, marketing of that improvement to the existing members of the industry often can be hampered by the economic disparity

between the parties to the negotiation. Oligopsony conditions in an industry sometimes can exacerbate the problem, particularly where an SSO or patent pool is operating in an industry.

In short, economic analysis also militates against any departure from the rule of *PaperBag* and *Special Equipment*.

C. The Prospect Of Repetitive Damages Determinations

The efficient administration of justice also favors retention of the *Paper Bag* rule, since unavailability of the permanent injunction would only create confusion in the district courts and the prospect of multiple damages trials. The amicus endorses and will not repeat the cogent analysis of the issue by the FPLC professors (FPLC brief at 10).

Point III

Any Novel Inroads On The Availability Of Injunctive Relief To Non-Practicing Patent Owners Under Section 283 Might Affect The Treaty Obligations Of The United States

The amicus respectfully submits that certain constraints on the reinterpretation of Section 283 by this Court may arise from the treaty obligations of the United States under (a) the TRIPS Agreement,[27] and (b) the Paris Convention.[28] If this Court should decide that the rule of *Paper Bag* should be changed, it would then have to determine whether such a change would be consistent with the *Charming Betsy* canon.

A. The Pertinent Treaty Provisions

1. The TRIPS Agreement

Article 28 of the TRIPS Agreement, of which the United States is a member, requires that the patent system of each

27. TRIPS, Art. 28.

28. Paris Convention, Art. 5A(2), Stockholm Revision (1967).

member state provide for "exclusive rights". Articles 30 and 31 provide for "limited exceptions" to those exclusive rights. Article 41 requires the availability of enforcement procedures. Article 44 mandates the availability of injunctions for all situations other than (a) where the infringing acquisition was made prior to actual or imputed knowledge of the rights infringed (Article 44.1), or (b) where injunctive remedies in particular cases are "inconsistent with a Member's law" (Article 44.2).

2. The Paris Convention

Article 5A(2) of the Paris Convention, to which the United States is also a party, provides that the grant of compulsory licenses can only be authorized by "legislative measures".

B. The Lemley Brief Arguments

The Lemley brief argues that the "Member's law" exception of Article 44.2 of the TRIPS Agreement should be read to authorize a case-by-case consideration of when the right to an injunction can be denied (Lemley Br. at 10-11). The principal problem with this approach is that it ignores Article 5A(2) of the Paris Convention. Under that provision, "legislative measures" would be required to change the rule of *Paper Bag* and *Special Equipment*. In the absence of an act of Congress, there can be no assurance that the result sought by petitioners would comply with the treaty obligations of the United States.

The Lemley brief also suggests that it "would be unreasonable to interpret a 1952 statute in a way contrary to its terms on the theory that it must be read as consistent with a treaty not adopted until four decades later" (Lemley Br. at 11).

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29. Nor, of course, does the amicus agree that Paper Bag and Special Equipment are "contrary to" the "terms" of Section 283.

Yet that is exactly what the *Charming Betsy* canon requires.[29]

C. Recent Trade Diplomacy Developments

The amicus will not repeat the BADC's useful discussion of the significance of the Executive Branch's challenge to the 2001 Brazilian compulsory licensing legislation as inconsistent with the requirements of valid local working requirements under the TRIPS Agreement (BADC Br. at 10).

The amicus also will not repeat the discussion treatment in the FPLC brief of the Administration's activities in respect of Cipro in 2001 and Tamiflu more recently (FPLC Br. at 9-10).

The recent bilateral trade compromises of the Executive Branch and its apparent reluctance to interfere with patent exclusivity even in areas that concern the public health and safety seem motivated by a belief that, in the absence of a local statute imposing a working requirement, the TRIPS Agreement obliges its members to provide for injunctive relief against patent infringement. In the absence of any Congressional enactment limiting the right to an injunction for non-use, the Court should decline to alter the rule of *Paper Bag* and *Special Equipment*

for that reason as well.

CONCLUSION

If the balance between the objectives formulated by the framers of the Constitution should become skewed either in particular industries or with respect to particular categories of patents, any necessary changes in the statutory scheme should be effectuated only after careful Congressional deliberations. This Court should not attempt to anticipate any such Congressional changes and the amicus respectfully submits that the Court's role should be limited to reviewing any such changes that Congress may enact for compliance with the Constitutional mandate. The judgment of the Federal Circuit should be affirmed.

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IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF INTERNATIONAL BUSINESS MACHINES CORPORATION AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY

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BRIEF OF INTERNATIONAL BUSINESS MACHINES CORPORATION AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY [1]

INTEREST OF AMICUS CURIAE

International Business Machines Corporation (IBM) is a globally recognized leader in the field of information technology research, development, design, manufacturing and related services. IBM has received tens of thousands of United States patents, including more patents than any other corporate assignee for the past thirteen years.[2] Many of IBM's patents are universally recognized as pioneering.

IBM has frequently been involved in patent infringement lawsuits, both as patentee seeking to enforce its patent rights and as accused-infringer defending itself against charges of patent infringement. IBM has thus experienced first-hand the importance of, and the threat posed by, the rights embodied in a United States Letters Patent. IBM therefore believes it can provide a balanced view on important issues implicated by this case - – namely, the guidelines governing permanent injunctions in patent cases and, in particular, the application of equitable principles in granting and structuring patent injunctions.

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1. In accordance with Supreme Court Rule 37.6, Amicus states that this brief was authored in its entirety by the counsel listed herein. No person or entity other than Amicus listed on the cover made a monetary contribution to the preparation or submission of this brief. A blanket consent to the filing of amicus briefs in support of either party has been filed with the Clerk of the Court by petitioners and respondent.

2. The United States Patent and Trademark Office has reported that in 2005 IBM received 2,941 patents, which is over 1,100 more United States patents than any other company. *See* USPTO Releases Annual List of Top 10 Organizations Receiving Most U.S. Patents (Jan. 10, 2006), *available at* http://www.uspto.gov/web/offices/com/speeches/06-03.htm.

INTRODUCTION AND SUMMARY OF ARGUMENT

In this case, the Federal Circuit repeated what it calls the "general rule" that a permanent injunction will issue in a patent case once infringement is found. The only exception to the "general rule" involves consideration of public interest in the form of public health concerns.

This so-called "general rule" is inconsistent with the patent statute which provides that entitlement to an injunction is not absolute and that principles of equity should be applied in adjudicating a patentee's request for an injunction. 35 U.S.C. § 283 (2005). The history and development of the patent statute confirms that the patentee's "right to exclude" does not require issuance of injunctions in patent cases. Under the original Patent Act of 1790, patentees had the "right to exclude" others from practicing the invention, but only had a remedy of monetary damages. The statutory provision for patent injunctions was not introduced until 1819. Thus, the "right to exclude" alone does not dictate grant of a patent injunction.

The "general rule" is also inconsistent with this Court's analysis of a broad spectrum of equitable considerations in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-24, 428-29 (1908) — the case specifically mentioned in the grant of certiorari. There, the Court affirmed the injunction and, in effect, addressed each of the four equitable factors traditionally evaluated in deciding whether to grant an injunction.

These considerations apply not only in deciding whether to grant an injunction but also in determining the scope of an injunction if granted. In the 98 years since *Continental Paper Bag*, the patent laws and their interpretation have adapted to changes in technology and business operations, but the Federal Circuit's approach in addressing patent injunctions has become rigid. The intervening century of continuous, multi-dimensional change only serves to reinforce the appropriateness of applying equitable principles to patent injunctions.

It is therefore appropriate to consult the traditional four-factor analysis used in injunctive relief determinations when addressing patent injunctions. Thus, for example, a court should consider whether the patentee has a legitimate economic interest to be protected by injunction in assessing the presence of irreparable harm. When the patentee and the infringer are competitors, such that an injunction will preserve the patentee's position in the marketplace, the patentee's legitimate economic interest will likely weigh in favor of an injunction. However, if the patentee has no substantial business, and no plan to launch a business, other than patent enforcement, that fact may weigh against grant of a broad injunction and perhaps any injunction at all.

Under the patent statute, a patentee must receive full compensation for damages suffered as a result of infringement. The patent damages law is highly developed, ensuring the patentee a full opportunity to prove its damages. Where the patentee is fully compensable in damages, a court could fairly conclude that the patentee has an adequate remedy at law, weighing against a broad injunction, and possibly any injunction.

The balance of hardships is important in determining whether an injunction will have a disproportionate impact on either party. If an injunction would cause the infringer to abandon a significant investment or incur significant additional costs unrelated to technological merits of the invention, that may weigh against a broad injunction. Similarly, where an infringing product contains many thousands of technological elements, an injunction against a minor, infringing element could have a disproportionate impact on the infringer by preventing the marketing of the entire product, an entire product line and/or interrelated products. The balance of hardship analysis is thus particularly relevant to the scope of an injunction.

The public interest broadly encompasses consideration of the potential impact of a patent injunction on the public.

In the case of patent claims covering industry standards, there is a public interest in maintaining the products embodying the standard in the marketplace, which may counsel in favor of denying an injunction or structuring an injunction in such a way that certain products embodying the standard remain available in the marketplace.

Finally, equitable factors traditionally considered with respect to the granting and structuring of injunctions should also be considered when determining whether to stay an injunction pending appeal in a patent case. The impact of an injunction, even if lifted on appeal, may force settlements on terms that are otherwise not justified. The high reversal rate at the Federal Circuit further counsels in favor of stays.

While expressing no view on the merits of the present case, IBM wishes to explain why courts should be encouraged to consider well-accepted principles of equity when granting and structuring patent injunctions.

ARGUMENT

I. THE "GENERAL RULE" CONCERNING PATENT INJUNCTIONS IS NOT FAITHFUL TO THE PATENT STATUTE

In this case, the Federal Circuit reiterated what it termed the "general rule" of granting permanent injunctions in patent cases — namely, "the general rule is that a permanent injunction will issue once infringement and validity have been adjudged."[3] *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005). This so-called "general rule," however, is at odds with the patent statute which provides that patent injunctions *may* be granted "in accordance with principles of equity." 35 U.S.C. § 283. The right to exclude others from practicing an

3. What the Federal Circuit describes as its "general rule" has been applied for over twenty years. *See Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858, 866 (Fed. Cir. 1984) (marking the last time the Federal Circuit explicitly recognized that an injunction does not automatically follow a finding of infringement).

invention, as is accorded by the patent grant under 35 U.S.C. § 154, does not command automatic grant of injunctions in patent cases. To the contrary, the history and development of the patent statute make clear that the right to exclude does not automatically result in issuance of an injunction.

Under the original United States Patent Statute, a patent grant gave inventors "the sole and exclusive right and liberty of making, constructing, using and vending" their inventions. Patent Act of 1790, ch. 7, § 1, 1 Stat. 109-12 (Apr. 10, 1790). This Court interpreted that statutory language as conferring "the right to exclude others from making, using or vending his invention." *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 35 (1923) (*citing Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 424 (1908)). But, under the original statute, the sole remedy for patent infringement, *i.e.*, violation of the "right to exclude," was an award of the patentee's damages. Patent Act of 1790; *Root v. Lake Shore & Mich. S. Ry. Co.*, 105 U.S. 189, 192 (1882); *Cochrane v. Deener*, 94 U.S. 780, 782 (1877). The original patent statute did not have a provision enabling patent injunctions.

The enabling provision for patent injunctions was introduced into the patent statute some thirty years later, with the Patent Act of 1819, and provided:

> that these courts should have "Original cognizance, as well in equity as at law, of all actions, suits, controversies, and cases arising under any law of the United States, granting or confirming to authors or inventors the exclusive right to their respective writings, inventions and discoveries; and upon any bill in equity, filed by any party aggrieved in any such cases, should have authority to grant injunctions, *according to the course and principles of courts of equity*."

Cochrane, 94 U.S. at 782 (*quoting* Patent Act of 1819, ch. 19, 3 Stat. 481 (Feb. 15, 1819)) (emphasis added). Before 1819, courts

did not have equity jurisdiction in patent cases. *Root*, 105 U.S. at 191-92. Thus, although this Court interpreted the original patent statute as providing a "right to exclude," before 1819 a patentee could only recover damages; it could not invoke equity jurisdiction to request an injunction.[4]

Since their separate introductions into the patent laws, the statutory provisions relating to the patentee's right to exclude and the remedy of injunctive relief have remained essentially unchanged in the subsequent patent statutes.[5] The current patent statute provides the patentee with the "right to exclude others from making, using or selling the invention throughout the United States." 35 U.S.C. § 154 (2005). The *remedy* of patent injunctions appears in another section — namely, section 283 which provides:

> The several courts having jurisdiction of cases under this title *may* grant injunctions in accordance with the *principles of equity* to prevent

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4. Under the original Patent Act of 1790, the federal courts had no jurisdiction in equity to hear patent infringement cases. *Root*, 105 U.S. at 191-92. The courts "had cognizance of actions at law brought to recover damages for the infringement of patents." *Cochrane*, 94 U.S. at 782. The courts, therefore, could not grant injunctive relief in a case whose jurisdictional basis rested solely on the Patent Act. *Root*, 105 U.S. at 191-92; *Cochrane*, 94 U.S. at 782. If, however, there was another basis for federal jurisdiction (*i.e.*, diversity), a court could grant injunctive relief. *Root*, 105 U.S. at 191-92; *Cochrane*, 94 U.S. at 782.

5. *See* Patent Act of 1819, ch. 19, 3 Stat. 481 (Feb. 15, 1819); Patent Act of 1836, ch. 357, 5 Stat. 117-25 (July 4, 1836); Patent Act of 1870, ch. 230, 16 Stat. 198-217 (July 8, 1870); Patent Act of 1897, ch. 391, 29 Stat. 692-94 (Mar. 3, 1897); 35 U.S.C. § 1 *et seq.* (1952); *see also* S. REP. No. 1979 (1952), *as reprinted in* 1952 U.S.C.C.A.N. 2394, 2417 ("The wording of the granting clause is changed to 'the right to exclude others from making, using, or selling', following language used by the Supreme Court, to render the meaning clearer.").

> the violation of any right secured by patent, on such terms as the court deems reasonable.

35 U.S.C. § 283 (emphasis added). Under section 283, the remedy of an injunction is not absolute; the statute provides that courts *may* grant injunctions by applying "principles of equity." Separate and apart from injunctive relief, the patentee is in all events entitled to recover damages adequate to compensate for the infringement. 35 U.S.C. § 284 (2005) ("the court *shall* award . . . damages. . . .") (emphasis added).

In sum, the history and development of the patent statute confirms that sections 154 and 283 are separate statutory provisions and that the right to exclude does not by itself confer a basis for granting patent injunctions.

II. THE "GENERAL RULE" CONCERNING PATENT INJUNCTIONS IGNORES THE FULL SCOPE OF EQUITABLE PRINCIPLES ANALYZED IN *CONTINENTAL PAPER BAG*

Under the so-called "general rule" reiterated in the present case, a permanent injunction will issue as a matter of course once there is a judgment of infringement of a valid patent. The only exception is limited to public interest needs, specifically public health concerns:

> "[C]ourts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." . . . Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. . . . [T]he district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction.

eBay, 401 F.3d at 1338-39 (citations omitted).

The failure to fully examine equitable considerations under this "general rule" stands in marked contrast with the scope of equitable considerations analyzed by this Court in *Continental Paper Bag*, 210 U.S. at 422-24, 428-29.

Although the *Continental Paper Bag* opinion did not explicitly enumerate the four factors commonly articulated in making injunction determinations,[6] the Court's analysis shows it did consider each of those four factors in affirming the patent injunction. For example, the Court considered the irreparable injury factor, noting that "[the] inventor could have kept his discovery to himself," "the monopoly he receives is only for a few years" and "even if the [patentee's] old machines could have been altered [in order to practice the patented approach], the expense would have been considerable." 210 U.S. at 424, 429. The Court also considered the adequacy of legal remedies, noting that "the [patentee's] remedy at law remains." 210 U.S. at 423. With respect to the public interest, the Court considered whether the "conduct of the patentee [contravened] the supposed public policy of the law" and the effect of an injunction on "diminished supply or [] an increase in prices." 210 U.S. at 422-24, 429. Finally, considering the balance of hardships, the Court noted: "the defendant's machine has been an assured commercial success for some years" and that the patentee "had for its motive the saving of the [considerable] expense that would have been involved by changing the equipment of a factory from one set of machines to another." 210 U.S. at 428-29.

In contrast to the robust equitable analysis performed in *Continental Paper Bag*, the so-called "general rule" followed

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6. The well-accepted equitable factors applied to injunction requests are: (1) irreparable injury to the plaintiff, (2) inadequacy of legal remedies, (3) any adverse effects on the public interest and (4) the balance of hardships to the parties. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982).

by the Federal Circuit ignores three of the four equitable principles applied in injunction determinations and considers a narrow range within the fourth equitable factor — only whether there is a public health concern.

Consistent with the patent statute and *Continental Paper Bag*, this Court should reaffirm that principles of equity must be fully considered by the district courts in deciding upon and fashioning patent injunctions.

III. DEVELOPMENTS IN TECHNOLOGY AND BUSINESS OPERATIONS REINFORCE THE WISDOM OF THE STATUTORY REQUIREMENT FOR APPLYING EQUITABLE PRINCIPLES WHEN CONSIDERING PATENT INJUNCTIONS

Aside from ignoring the statutory mandate and this Court's precedent, wooden application of the "general rule" of near-automatic patent injunctions divests district courts of their inherent discretion to apply principles of equity that may otherwise result in denial of a patent injunction in appropriate cases. It also prevents courts from considering factors that would aid in structuring or scoping an injunction, inevitably leading to overly broad patent injunctions. *See, e.g., Metabolite Labs., Inc. v. Lab. Corp. of Am.*, 370 F.3d 1354, 1371-72 (Fed. Cir. 2004) (patent claim limited to homocysteine testing and correlating elevated homocysteine levels with a vitamin B deficiency, infringer enjoined from all homocysteine testing), *cert. granted*, 126 S. Ct. 601 (2005).

Patent laws exist to promote the progress of technology. U.S. CONST. art. I, § 8, cl. 8; *Pfaff v. Wells Elec., Inc.*, 525 U.S. 55, 63 (1998) (patent system "encourages both the creation and the public disclosure of new and useful advances in technology"). During the 98 years since *Continental Paper Bag*, technology has developed at a remarkable rate, literally transforming the way businesses operate. The substantive patent laws have, over this time, been amended and

interpreted to keep pace with these advances in technology and business operations. As for injunctive relief, despite the statutory requirement to apply principles of equity, courts have instead enforced a rigid rule leading to nearly automatic, broadly-framed injunctions in all cases. This approach is counter-intuitive because the principles of equity provide the very flexibility that is needed to achieve just results in the face of change. Applicability of equitable principles to patent injunctions remains at least as important today as it was when *Continental Paper Bag* was decided.

A. Except For The Remedy Of Injunctions, The Patent Laws Have Adapted To Changes In Technology And Business Operations

The substantive patent laws have adapted to accommodate the dramatic changes in technology since *Continental Paper Bag*. For example, the scope of patentable subject matter has expanded and evolved both by statute and by court interpretation to keep pace with new discoveries. *See, e.g.*, 35 U.S.C. § 161 (1954) (plant patents); 35 U.S.C. § 105 (1990) (inventions in outer space); *Diamond v. Chakrabarty*, 447 U.S. 303, 310 (1980) (patentability of new life form); *Diamond v. Diehr*, 450 U.S. 175, 191-92 (1981) (patentability of computer software). Complementary new laws and rules relating to patent infringement and validity have been enacted. *See, e.g.*, 35 U.S.C. § 271(e) (1988) (infringement of biotechnology inventions); 35 U.S.C. § 103(b) (1995) (validity of biotechnology inventions); 37 C.F.R. § 1.801 (1989) (biotechnology invention disclosures).

Business operations have changed dramatically in parallel with technological advances (*see infra* at pp. 11-15), and the manner in which innovation has occurred has changed as well. Modern innovation often involves collaborative efforts among otherwise independent entities, across national boundaries. The patent laws and their interpretations have adapted to accommodate these changes, with enactment of

provisions covering foreign manufacturing and collaborative invention. 35 U.S.C. § 271(f) (1984) (supply of components of a patented invention from the United States for assembly abroad); 35 U.S.C. § 271(g) (1988) (process inventions performed abroad); 35 U.S.C. § 103(c) (1984 & 2004) (collaboration under joint research agreements).[7]

While the patent laws and their interpretation have responded flexibly to changes in technology, business and commerce, the Federal Circuit's approach to patent injunctions has become rigid. Equitable considerations have been supplanted by the so-called "general rule" of routinely granting patent injunctions, absent exceptional public health concerns. Consideration of the full complement of equitable principles when fashioning patent injunctions will restore flexibility to the process and allow that process to keep pace with evolving technologies and businesses.

B. The "General Rule" Ignores Modern Business Inter-dependency Whereby The Impact Of Patent Injunctions Extends Far Beyond Litigants

Technological developments of the last two decades have allowed and indeed forced separate business entities to become interoperable — they now can, must and do interact seamlessly across many points of contact as a means to remain competitive in the face of relentless global pressure.

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7. Whether or not one agrees with the ultimate results, these laws are being interpreted to respond to the dynamic technological and business environments. *See, e.g., NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1322-23 (Fed. Cir. 2005) (whether a United States patent applies to a wireless email system including operations occurring abroad under Section 271(f)), *cert. denied*, ___ U.S. ___ (2006); *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1338-41 (Fed. Cir. 2005) (whether software is a component of a patented product within the meaning of section 271(f)); *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1371 (Fed. Cir. 2005) ("whether software is sent abroad via electronic transmission or shipped abroad on a 'golden master' disk is a distinction without a difference for the purposes of § 271(f) liability").

See National Innovation Initiative, *Innovate America, National Innovation Initiative Report*, at 45 (Council on Competitiveness 2004), *available at* http://www.publicforum institute.org/nde/sources/NII_Final_Report.pdf [hereinafter "NII"] ("However, manufacturing no longer takes place in a single enterprise or location. Increasingly, the successful 21st century manufacturer is more of a system integrator, managing a supply chain or a virtual network of business process suppliers not controlled by the manufacturer itself."). This interoperability allows a business to rely on others to perform many functions that were previously managed within a single, vertically-integrated company. Thus, a business can focus on those operations that make it most competitive. *See* THOMAS L. FRIEDMAN, THE WORLD IS FLAT: A BRIEF HISTORY OF THE TWENTY-FIRST CENTURY, pp. 414 *et seq.* (Farrar, Straus & Giroux 2005) [hereinafter FRIEDMAN] (Dell realizes a competitive advantage from strategically outsourcing many aspects of its computer production).[8] As a result, the market is now characterized by networks of inter-dependent companies. *See* NII, at 45.

While these inter-dependent businesses are individually more efficient, they must rely on each other to an unprecedented level. As a result, an injunction against one company will likely have a substantial "ripple effect" through other inter-dependent businesses whether or not they infringe. Federal courts have considered this "ripple effect" in determining whether to grant a preliminary patent injunction. *See Litton Sys., Inc. v. Sundstrand Corp.*, 750 F.2d 952, 953-55 (Fed. Cir. 1984) (affirming denial of preliminary injunction that would prevent defendant from servicing

8. *See* ERIC VON HIPPEL, DEMOCRATIZING INNOVATION 163-64 (The MIT Press 2005) (advancements in tools allow businesses to design products independent of the manufacturing process). These advances have enabled the emergence of new business models, such as firms that design, but do not fabricate, semiconductor chips ("fabless semiconductor firms"). *See* http://www.fsa.org/association/milestones.asp (last visited Jan. 26, 2006) (as of 2004, the Fabless Semiconductor Association (FSA) had 450 members).

potential and existing customers and communicating with suppliers); *Archive Corp. v. Cipher Data Prods., Inc.*, 12 USPQ2d 1464, 1469 (C.D. Cal. 1988) (denying preliminary injunction that would leave third-party computer manufacturers without a source of supply, resulting in large financial losses). This Court recognized a potential "ripple effect" in *Continental Paper Bag*. 210 U.S. at 422-24, 429 (addressing effects of an injunction on "diminished supply or [] an increase in prices"). While the prospect of an injunction against one party affecting others is not new, the modern business and technology landscape makes it far more pronounced.[9]

The most fundamental technological developments enabling interoperability of businesses and their products have the advantages of being uniform, low-cost, widely adopted, geographically independent and available from many sources.[10] These advantages allow companies to maximize access to business partners without the expense of developing company-specific skills or tools.[11] In addition, these advantages make a company's products more attractive to customers by maximizing compatibility with complementary products.[12] To maximize access to business partners and achieve optimal product compatibility, companies collaborate to develop and adopt

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9. *See* ERIC MARKS & MARK WERRELL, EXECUTIVE'S GUIDE TO WEB SERVICES 181-82 (Wiley & Sons 2003) (describing seven categories of software and hardware vendors providing nine tools and applications residing in ten layers of system architecture, where multiple vendors control "critical elements of a web services value chain").

10. *See* ASTM Handbook of Standardization, *available at* http://www.astm.org/NEWS/handbook02/images/Handbook02.pdf (last visited Jan. 26, 2006) (American Society for Testing and Materials).

11. *See* FRIEDMAN, at 352-56.

12. *See* ASTM Handbook of Standardization.

industry standards.[13] Thus, our economy is characterized by networks of inter-dependent companies relying on such standards to work together and ensure product compatibility.

Broad reliance on a standard makes not only those implementing the standard vulnerable to a patent injunction but may also significantly affect other companies doing business with them.[14] The significant cumulative investment associated with broad adoption of a standard makes even the threat of an injunction against its practice particularly acute.[15] So profound is the impact of a patent injunction against the practice of a broadly-adopted standard that the mere possibility of patent coverage has led to the abandonment of some standards development efforts. *See* Anick Jesdanun, *Patent Spat Kills Anti-Spam Plan*,

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13. For example, each year in its Annual Book of ASTM Standards, ASTM International publishes more than 12,000 standards related to metals, paints, plastics, textiles, petroleum, construction, energy, the environment, consumer products, medical services and devices, electronics and many other areas. These standards and related information are broadly used worldwide as the basis for purchasing and other contracts, codes, laws and regulations. *ASTM International, 2004 ASTM International Annual Report, Focus 2004*, at 16 (2004), *available at* http://www.astm.org/NEWS/2004AnnualReport.pdf. *See* World Wide Web Consortium ("W3C"), *at* http://www.w3c.org (last visited Jan. 26, 2006) ("The World Wide Web Consortium (W3C) is an international consortium where Member organizations, a full-time staff, and the public work together to develop Web standards.").

14. Reliance on a standard is intensified when a standard is adopted by the government, or by formal industry mandate, *see, e.g.*, Institute of Electrical and Electronic Engineers, IEEE 802.11 (standard for wireless communications), *at* http://grouper.ieee.org/groups/802/11 (last visited Jan. 26, 2006), or informal industry mandate, *see, e.g.*, *eBay*, 401 F.3d at 1325 (fixed-price purchasing feature allowing customers to purchase items for fixed, listed price).

15. *See* CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES 11-13 (Harvard Business School Press 1999) ("once you have chosen a technology . . . switching can be very expensive").

CBS NEWS, Sept. 28, 2004, *at* http://www.cbsnews.com/stories/2004/09/28/tech/main645915.shtml.

Application of the well-accepted equitable factors will enable courts to evaluate not only the circumstances pertaining to patentees but also those affecting the inter-dependent enterprises that could be affected by an injunction when addressing patent injunctions. As we describe hereafter, application of equitable principles will restore needed flexibility to the determination of injunctive relief in a highly inter-dependent economy.

IV. THE UNIQUE NATURE OF PATENT CASES WARRANTS CONSIDERATION OF EQUITABLE PRINCIPLES IN GRANTING AND STRUCTURING INJUNCTIONS

This Court has identified four factors relevant to injunctive relief inquiries — irreparable injury to the plaintiff, inadequacy of legal remedies, adverse effects on the public interest and the balance of hardships to the parties. *Weinberger*, 456 U.S. at 312. In a patent case, those factors can be summarized as the effects a patent injunction may have on the patentee, on the infringer and on the public.

The focus of any equitable analysis is "to do equity." *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). The command to do equity is especially relevant to injunctions where the court must consider not only whether to grant or deny an injunction but also how to structure the injunction properly. *Hecht*, 321 U.S. at 329 ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it."); *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs., Inc.*, 528 U.S. 167, 193 (2000) ("federal courts should aim to ensure 'the framing of relief no broader than required by the precise facts.'").

Consistent with the command to do equity and within the purview of the traditional equitable principles, there are a variety of circumstances specific to patent cases, meriting consideration in granting and structuring injunctive relief.

A. Consideration Of Irreparable Injury To The Patentee Focuses On The Conduct And Needs Of The Patentee

The so-called "general rule" presumes irreparable harm to the patentee, and thus fails to apply the equitable principles required by the patent statute. When properly analyzed, the patentee's conduct and needs may tend to show lack of irreparable harm and may weigh against granting an injunction or, if granted, may warrant appropriate moderation of the injunction.

For example, a court should consider whether the patentee has a legitimate economic interest in seeking an injunction. Where a patentee is practicing the invention, the ability to exclude its competitors remains the ultimate statement of respect for the exclusive nature of the patent grant. In such instances, a complete examination of the well-accepted equitable principles will undoubtedly result in a broad injunction in favor of the patent holder. However, if a legitimate economic interest in an injunction cannot be shown beyond the motivation to maximize negotiating leverage in settlement negotiations, this may be a factor weighing against granting an injunction or in favor of limiting its scope.

In *Continental Paper Bag*, this Court did, in fact, consider the patentee's legitimate economic interests in relation to the patent injunction. 210 U.S. at 429. There, a dissenting judge on the court of appeals (Judge Aldrich) would have denied an injunction if the patent was "deliberately held in nonuse for a wrongful purpose." 210 U.S. at 428. In analyzing the pertinent equities, this Court looked beyond simple nonuse of the patent, and examined

whether or not the underlying reason for the nonuse was reasonable:

> [C]an it be said, as a matter of law, that a nonuse was unreasonable which had for its motive the saving of the [considerable] expense that would have been involved by changing the equipment of a factory from one set of machines to another?

210 U.S. at 429. In contrast, the Federal Circuit in *eBay* held that the circumstances of MercExchange's nonuse were irrelevant to the grant of an injunction:

> If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

eBay, 401 F.3d at 1339; *cf. Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) ("An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance.") (citations omitted).

Another indicia of legitimate economic interest is whether the patentee and infringer are competitors in the marketplace. *See Continental Paper Bag*, 210 U.S. at 428-29. Competition between the patentee and the infringer in the market for the patented product may indicate a need on the part of the patentee to protect the market for its product and consequently irreparable injury if that market is not protected by an injunction. The patentee's need to prevent dilution of its market for a non-patented product may also constitute a legitimate economic interest weighing in favor of granting an injunction. *See Continental Paper Bag*, 210 U.S. at 428-29. On the other hand, a lack of legitimate

economic interest in seeking an injunction may be evidenced by the patentee's lack of a substantial business, or absence of a plan to launch a business, other than patent enforcement.

Another pertinent factor is the patentee's delay in bringing suit, which may indicate a willingness to tolerate the market effects of infringement or allow an infringer as well as similarly-situated members of the public to become committed to an infringing course of conduct. This may weigh against a finding of irreparable injury. *See High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995) (delay in seeking preliminary injunctive relief showing lack of irreparable injury).

The patentee's practices in the prosecution and management of its patent portfolio may also be relevant to the harm inquiry. For example, where the patentee engaged in continuation practice, *see* 35 U.S.C. § 120, filing the patent claim in suit after the defendant's infringing activities became public, it should be determined whether the claim was obtained to protect a product of the patentee or simply to strengthen its negotiating position with the infringer. The latter finding may suggest a lack of irreparable harm.

The patentee's grant of exclusive licenses to third parties may weigh in favor of a finding of irreparable harm. But, the patentee's grant of nonexclusive licenses to third parties or offering of a license to the infringer prior to commencing suit may weigh against such a finding. *See T.J. Smith & Nephew Ltd. v. Consolidated Med. Equip., Inc.*, 821 F.2d 646, 647-48 (Fed. Cir. 1987) (preliminary injunction denied in part because of prior licenses to third parties).

These same types of considerations should motivate an appropriate crafting of an injunction. For example, if the patentee and infringer do business in generally separate markets but compete in a specific product market, the injunction may be structured only to exclude the infringer from that market where they compete. Moreover, if the

patentee has only granted non-exclusive licenses in a particular field of use, reserving other fields for itself, an injunction may be structured to exclude the infringer from the fields reserved by the patentee.

B. The Adequacy Of The Patentee's Legal Remedies Includes Consideration Of Patentee's Damages

The adequacy of the patentee's legal remedies is closely related to the inquiry of irreparable injury. Where the patentee is fully compensable at law (*i.e.*, in money damages), it can be said there is no irreparable injury. *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011, 1045 (N.D. Ill. 2003) (Posner, J., sitting by designation) ("The grant of an injunction in the circumstances disclosed by the evidence in this [patent infringement] case would be a *travesty of equity*. An injunction is a substitute for an award of damages in situations in which damages are difficult to calculate or are otherwise inadequate as a remedy for the wrong done by the defendant to the plaintiff.") (emphasis added), *aff'd in part*, 403 F.3d 1313 (Fed. Cir. 2005).

By statute, the patentee must receive full compensation for damages it suffered as a result of infringement. 35 U.S.C. § 284; *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983) (in enacting section 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement."). The Federal Circuit and the district courts have constructed a highly-developed body of damages law ensuring a patentee the full opportunity to establish its damages. A patentee can prove damages as lost profits, where the patentee and infringer are competitors. *See State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577-80 (Fed. Cir. 1989). As part of a lost profits analysis, the patentee can rely on theories of market share liability, price erosion and convoyed sales to demonstrate the full scope of its damages. *See BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d

1214, 1219 (Fed. Cir. 1993) (market share liability); *Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369, 1378 (Fed. Cir. 2003) (price erosion); *Interactive Pictures, Corp. v. Infinite Pictures Inc.*, 274 F.3d 1371, 1385-86 (Fed. Cir. 2001) (convoyed sales). A patentee can also prove its damages as a "reasonable royalty." 35 U.S.C. § 284. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1554-55 (Fed. Cir. 1995) (computation of reasonable royalty). The patentee can recover lost profits or a "reasonable royalty" based on "'the value of an entire apparatus containing several features, even though only one feature is patented.' . . . when the patented feature is the basis for customer demand." *Fonar Corp. v. Gen. Elec. Co.*, 107 F.3d 1543, 1552 (Fed. Cir. 1997) ("entire market value rule") (citation omitted). A patentee is also entitled to pre- and post-judgment interest to ensure full compensation. *Transmatic Inc. v. Gulton Indus. Inc.*, 180 F.3d 1343, 1347-49 (Fed. Cir. 1999) (pre- and post-judgment interest).

Evidence that the patentee's damages can be readily ascertained — whether a "reasonable royalty" or lost profits — may show that the patentee has an adequate legal remedy. For example, the patentee's grant of licenses to third parties or offering of a license to the infringer prior to commencing suit tend to show its damages can be fully ascertained by a reasonable royalty. *See, e.g., Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1312-13 (Fed. Cir. 2002) ("patentee's prior license agreements 'should carry considerable weight in calculating a reasonable royalty rate.'"). Likewise, the patentee's profit margins and lost sales to the infringer may constitute evidence of the patentee's damages calculated as lost profits. *See, e.g., King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 863-64 (Fed. Cir. 1985).

There are many well-defined and comprehensive damages theories upon which courts can draw to frame adequate relief for past and/or continuing infringement of a patent as part of the equitable analysis for determining whether to grant a broad patent injunction.

C. The Public Interest Encompasses Consideration Of The Overall Impact On The Public

The third well-accepted factor considered in granting injunctions, the public interest, allows courts to consider the effect of an injunction beyond the parties. *See United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) ("For 'several hundred years,' courts of equity have enjoyed 'sound discretion' to consider the 'necessities of the public interest' when fashioning injunctive relief."). However, consideration of the public interest encompasses more than those public health concerns which have characterized the Federal Circuit's limited analysis under its "general rule" over the past twenty years. *See supra* at p. 7.

Courts should be empowered and encouraged to consider whether the economic impact on the public weighs against granting a broad injunction. For example, as already explained *supra* at pp. 13-14, the Twentieth Century has seen the proliferation of industry standards which allow for significant efficiencies in the marketplace by enabling interoperability of many products and components. A patent may cover an industry standard so that, once the standard has been adopted and incorporated into a variety of interrelated products of various manufacturers, changing to a non-infringing design is essentially impossible. If businesses are forced to abandon a standard because of a threatened injunction, the impact on the public can be dramatic. *See* Paul Festa, *Eolas Suit May Spark HTML Changes*, CNET NEWS.COM, Sept. 19, 2003, *at* http://news.com.com/2100-1023-5079580.html.

Given the trend of increasing numbers of patent suits based on the practice of standards, an impact on the public may be expected to follow.[16] The impact of an injunction on

16. *See, e.g., Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1266-67 (Fed. Cir. 2004) (Dynacore asserted patent (Cont'd)

implementation of a standard is felt broadly by companies practicing the standard as well as their suppliers and customers. *See supra* at pp. 12-14. Likewise, the practical effect of an injunction against one of many inter-dependent companies is ultimately borne by the public. *See supra* at pp. 12-13.

When pervasive impact on the public is likely to result from imposition of a broad injunction affecting an industry standard, a court should be empowered and encouraged to fashion an injunction to preserve implementation of the standard, such as by enjoining only those infringements that do not comply with the standard. *See Cook Inc. v. Boston Scientific Corp.*, 333 F.3d 737, 744 (7th Cir. 2003) (Posner, J.) ("in determining the appropriate scope of [a contract] injunction the judge must give due weight to the injunction's possible effect on innocent third parties."). A patent may include one claim which constitutes a "necessary claim" — namely, a patent claim which cannot be avoided when implementing the standard — and other claims which are not "necessary claims", but cover useful adaptations or improvements. In that situation, a court could deny an injunction as to the "necessary claim", while granting it as to the other claims.

In some cases, the patent may cover a product that is well-established in the marketplace. A court should exercise discretion in such cases in view of the public interest in maintaining the product's availability. It may be appropriate in such cases to consider structuring the injunction to enjoin only new generations of the infringing product. Moreover,

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against devices conforming to IEEE Standard 1394 for "High Performance Serial Bus"); Complaint, QUALCOMM Inc. v. Nokia Corp., No. 05-CV-2063 (S.D. Cal., Nov. 4, 2005) (QUALCOMM sued Nokia for infringement of eleven patents directed to GSM, GPRS and EDGE cellular standards and sought an injunction against Nokia's continuing sales of accused products).

the equities associated with such well-established products may be more compelling if the patentee does not produce its own products that will satisfy market demand in the absence of the enjoined product.[17]

D. The Balance Of Hardships To The Parties Includes Consideration Of Their Respective Business Models And Commercial Needs

The fourth equitable factor — the balance of hardships to the parties — enables courts to evaluate whether an injunction would have a disproportionate impact on either party. *See Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 (1933) ("Where substantial redress can be afforded by the payment of money and issuance of an injunction would subject the defendant to grossly disproportionate hardship, equitable relief may be denied although the nuisance is indisputable.").

A disproportionate hardship may often be determined by considering the patentee's and infringer's legitimate economic interests in terms of their respective business models and commercial needs. *See supra* at p. 16. In certain cases, an injunction may result in a windfall for the patentee, out of balance with the economic contribution of the patented invention. For example, to comply with a broadly-drawn injunction, the infringer may have to abandon significant investment or incur significant additional costs by retooling a manufacturing plant that was designed before the patent issued, canceling purchase orders for raw materials destined for use in manufacturing infringing products, destroying existing products in inventory, remanufacturing previously sold products or recalling products for their eventual destruction or remanufacture. These transactional costs may have little or nothing to do with the merits of the patented invention or the infringement of the patent.

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17. *See* Kurt M. Saunders, *Patent Nonuse and the Role of Public Interest as a Deterrent to Technology Suppression*, 15 HARV. J.L. & TECH. 389, 392 (2002).

Similarly, the original decision of the infringer may have been made without knowledge that it would result in patent infringement, or without ascribing any particular advantage to the later-found infringing approach. Nevertheless, years later, with money, resources and facilities inalterably committed, an unforeseen injunction may not be an equitable solution. *Cf. Continental Paper Bag*, 210 U.S. at 428-29 (considering cost involved in "changing the equipment of a factory from one set of machines to another", albeit to patentee, as a factor in equitable analysis).

Judge Posner has recognized that in these types of circumstances, the balance of hardships should be considered in denying an injunction:

> We have several times seen property rights distinguished from other sorts of legal interest in terms of remedies, and the point has now to be generalized: In conflicting-use situations in which transaction costs are high, the allocation of resources to their most valuable uses is facilitated by denying owners of property injunctive remedy against invasions of their rights instead limiting them to a remedy of damages . . . .

RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW 77 (Aspen Law & Business, 5th ed. 1998). In situations involving high transaction costs such as those described above, an injunction should be denied or appropriately tailored to avoid a "hold-up" of the infringer and resulting windfall to the patentee. *Id.* at 81 (discussing *Boomer v. Atl. Cement Co.*, 26 N.Y.2d 219, 257 N.E.2d 870 (1970), where closing cement plant would cost $45 million and cost of nuisance to plaintiffs was only $185,000, denying injunction was appropriate because plaintiffs could be adequately compensated with damages: "The cost to the plaintiffs of the nuisance was only $185,000. So *any* price for dissolving the injunction between $185,000 and $45 million would have made both sides better than if

the injunction were enforced. That is an *enormous* bargaining range. . . ."); *Walgreen Co. v. Sara Creek Prop. Co.*, 966 F.2d 273, 276-78 (7th Cir. 1992) (Posner, J.) (same).

Where an enjoined product contains many thousands of technological elements, as is often the case in the information technology industry, an injunction against a single element can prevent the marketing of a much larger product, an entire product line and/or interrelated products. This problem is exacerbated by product inter-dependence and adoption of industry standards, *see supra* at pp. 13-14, resulting in a disproportionate impact on the infringer by imposing a penalty that is far out of balance with the economic value of the infringing element. In contrast, the patentee will receive a windfall in that the effect of the injunction is far greater than the value of the patented invention.

Certain acts by the patentee may show undue hardship on the infringer. For example, if the patentee engaged in continuation practice, *see* 35 U.S.C. § 120, simply to strengthen its negotiating position with the infringer, that may indicate disproportionate hardship on the infringer. *See supra* at p. 18. On the other hand, certain acts by the infringer may show lack of hardship, weighing in favor of a broad injunction to ensure preservation of the patentee's rights. For example, where the infringer has notice of the patent before commencing infringement, slavishly copies the patented invention or does not undertake a good faith effort to evaluate the issues of patent infringement or validity after being made aware of the patent, the infringer may not be able to establish a hardship. *See Monsanto Co. v. Scruggs*, 249 F. Supp. 2d 746, 759 (N.D. Miss. 2001) (preliminary injunction granted where defendants used patented technology with full knowledge and disregard of existence of plaintiff's patent rights).

E. Balancing Of Equitable Principles Will Ensure Flexibility In Considering Stays Of Patent Injunctions Pending Appeal

The equitable factors traditionally considered when granting and structuring injunctions should also be considered in determining whether to stay an injunction pending appeal in a patent case. *See Standard Havens Prods., Inc. v. Gencor Indus., Inc.* 897 F.2d 511, 512 (Fed. Cir. 1990); *E.I. du Pont de Nemours & Co. v. Phillips Petroleum Corp.*, 835 F.2d 277, 278 (Fed. Cir. 1987). For example, the economic harm resulting from enforcing an injunction pending appeal has been recognized:

> [T]he defendants [] had a large amount of money invested in boring machines constructed mainly under other patents but containing nevertheless the invention of the patent in suit. These machines were, and are, in various stages of completion. Their "construction, use or sale" is now enjoined, and, in consequence, they stand idle in the plant of the defendants awaiting the outcome of this appeal.
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> * * *
>
> Not overlooking the complainant's rights in the monopoly which the law has given him, it should be observed that he is not manufacturing under this patent nor, so far as we have been informed, has he any licenses outstanding. In other words, he is not a competitor of the defendants, nor are the defendants competitors of his, in the manufacture of boring machines. Therefore it would seem that enforcement of the injunction would cause much greater injury to the defendants than benefit to the complainant.

Landis Tool Co. v. Ingle, 286 F. 5, 6-7 (3d Cir. 1923) (citations omitted). The threat of an injunction — even one that only lasts between the initial judgment of the district court and

final judgment subsequent to appeal — is sufficiently destructive to cause many infringers to undertake settlements that are not otherwise economically justified simply to avoid the costs associated with an interruption in business.

Considerations in addition to those set forth above, but still within the purview of the traditional equitable principles, may also bear on the determination of whether to stay an injunction pending appeal. For example, the validity of the asserted patent may be in question through reexamination, *see* 35 U.S.C. §§ 302-05,[18] or through a parallel proceeding in another district court. Also, the patentee may not be irreparably harmed until a particular event occurs, for example, until the patentee actually begins manufacturing the patented article. *See, e.g., Landis Tool*, 286 F. at 7; *Moxness Prods., Inc. v. Xomed, Inc.*, Civ. No. 86-100-CIV-J-14, 1988 U.S. Dist. LEXIS 16060, at *10-11 (M.D. Fla., May 10, 1988) (preliminary injunction denied, patentee not harmed because not currently practicing invention).

Denial of a stay pending appeal may serve little purpose where the infringer is a solvent commercial entity and the patentee has no compelling need for an immediate injunction. *See Barnard v. Gibson*, 48 U.S. (7 How.) 650, 658 (1849) ("unless the defendants below are in doubtful circumstances, and cannot give bond to respond in damages for the use of the machines, should the right of the plaintiff be finally established, we suppose that the injunction will be suspended. Such is a correct course of practice. . . .").

Finally, the high reversal rate of district court decisions by the Federal Circuit further counsels in favor of staying injunctions pending appeal. "The reversal rate (rate at which

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18. In 74% of reexamination proceedings filed from 1981-2003, the claims were either changed, *i.e.*, narrowed, or cancelled. *See* Paul Morgan & Bruce Stoner, *Reexamination vs. Litigation — Making Intelligent Decisions in Challenging Patent Validity*, 86 J. PAT. & TRADEMARK OFF. SOC'Y 441, 460-63 (2004).

the Federal Circuit determined the claim construction was wrong) for appealed claim terms from 1996, after *Markman* was decided, through 2003 is 34.5%." Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 LEWIS & CLARK L. REV. 231, 233, 239 (2005). More specifically, the Federal Circuit claim construction reversal rate in cases where the patentee won at the district court is 32.3%. *See id.* at 241. Claim construction is crucial to the ultimate determination of infringement and validity. Granting a stay of an injunction is warranted given the significant chance the infringer will prevail on appeal. A stay can easily be lifted post-appeal, yet the negative impact on the accused infringer of an ultimately inappropriate injunction may never be overcome.

CONCLUSION

For the foregoing reasons, IBM respectfully requests that this Court reaffirm its precedent in *Continental Paper Bag* that the granting and structuring of injunctions in patent cases requires consideration of the well-accepted equitable factors, in accordance with 35 U.S.C. § 283.

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Supreme Court of the United States

EBAY, INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF LAW PROFESSORS AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

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INTEREST OF AMICI

Amici's sole interest in this case is the proper development and application of patent law to promote innovation and competition.[1] Amici teach and write about patent law; all also have patent law experience. This brief is submitted to provide the Court with scholarly assistance informed by experience.

SUMMARY OF ARGUMENT

Inventors lacking assurance of a market, or even the right to practice patented inventions, face considerable risk. Those who qualify for patents, in return for disclosure, receive only the assistance of the courts in excluding others from economic exploitation of their inventions. Already subject to many legislative and judicial limitations, patents should not be further subject to the functional equivalent of private inverse condemnation without congressional action.

Precedents of this Court hold that patentees forfeit no rights for nonuse as such and that private parties are not ordinarily free to practice protected inventions upon payment of a judicially-determined royalty. Indeed, in rare instances where Congress authorizes public taking, the executive branch hesitates for fear of deterring socially and economically important innovation.

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[1] Pursuant to Sup. Ct. R. 37.6, the amici represent that they have authored this brief in whole; no person or entity other than Franklin Pierce Law Center has made any monetary contribution to its preparation or submission. On December 10, 2005, counsel for the respective parties consented by email to the filing of this brief.

The trial court accepted arguments analogous, given the apparent economic disparity between the parties, to ones Goliath might have made in asking that David be disarmed. It failed to cite the most relevant precedent when refusing an injunction to a party actively seeking to exploit its patents. Nor did the trial court identify a public interest that might, despite precedent, warrant such refusal.

An appellate court does not overreach in reversing decisions unsupported by facts, law or sound reasons. Failure to recite that proposition does not warrant reversal of the decision below.

ARGUMENT

I. Patent Rights Are Conditional And Limited.

A. Patents Represent A Bargain With The United States Government.

To obtain patents, applicants must satisfy the U.S. Patent and Trademark Office (PTO) that inventions for which protection is sought are useful, novel and nonobvious. 35 U.S.C.A. §§ 101, 102 (2001) and 103 (Supp. 2005). Applicants must also disclose the best mode of practicing their inventions so that others may practice them upon expiration of their patents. 35 U.S.C.A. § 112 (2001).

Utility, novelty and nonobviousness are conditions for patent grants, but disclosure is the applicants' quid pro quo for a "carefully crafted bargain." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989); *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998). In return, owners are normally entitled to the aid of federal

courts in excluding others from, e.g., making, using or selling subject matter described in allowed claims. 35 U.S.C.A. §§ 154(a)(1), 271 (2001); 28 U.S.C.A. § 1338 (Supp. 2005).

B. Patents Are Subject To Many Legislative And Judicial Limitations.

First, patent owners are permitted to *do* nothing, *Webber v. Virginia*, 103 U.S. 344, 347-48 (1880), except exclude others from practicing inventions encompassed literally, or, rarely, by equivalence, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722, 726 (2002), within the scope of claims negotiated with the PTO.

Second, patentees are strictly liable for information available when claimed inventions were made. Rights are subject to loss regardless of whether applicants were, or reasonably could have been, expected to know of applicable prior art. 35 U.S.C.A. § 102(a) (includes foreign publications). A priori, applicants unaware of the market for inventions have less incentive to scour the literature for potentially fatal art than infringers subsequently aware of the stakes.

Third, applicants' lack of candor during PTO examination may render otherwise valid rights unenforceable. *McPherson's Ltd. v. Never Dull, Inc.*, 960 F.2d 156 (Table), 1992 WL 52140 (Fed. Cir. 1992).

Fourth, patents, when granted, may be subject to statutory compulsory licenses. *See, e.g.*, 42 U.S.C.A. § 7608 (2003) (Clean Air Act) and 35 U.S.C.A. § 203 (Supp. 2005) (federally-funded inventions); *see also*, 35 U.S.C.A. § 209

(2001 & Supp. 2005) (termination of exclusive license on federally-owned inventions).

Fifth, patent misuse may result in forfeiture of *all* rights. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) (conditioning patent use on purchase of unpatented supplies); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (conditioning use on agreement to pay royalties beyond patent term). In apparently less egregious circumstances, patentees may be obligated only to license others. *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 59 (1973) (compulsory licensing is a "well established form[] of relief when necessary to an effective remedy, particularly where patents have provided the leverage for or have contributed to the antitrust violation adjudicated.").

Sixth, patents are subject to *public* inverse condemnation. 28 U.S.C.A. § 1498 (Supp. 2005) (limits relief against the federal government to suits for damages in the U.S. Court of Federal Claims); *see also College Savings Bank v. Florida Prepaid Educational Expense Bd.*, 527 U.S. 627 (1999) (federal suits against states based on the Patent Act are barred by the 11th Amendment).

Last, patentees have also, if rarely, been subject to private inverse condemnation.[2] *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934) (court refused to shut down an infringing city-owned waste treatment plant); *Cf. Boomer v. Atlantic Cement Co.*, 26

[2] *Vitamin Technologists, Inc. v. Wis. Alumni Research Found.*, 146 F.2d 941 (9th Cir. 1945) is oft cited for the same proposition, but, at 146 F.2d 946-47, the opinion states: "Since our consideration of the record convinces us that the patents are invalid, we have concluded that equity will best be served by disposing of the case on that ground." Moreover, patentee was faulted for egregious misconduct, 146 F.2d 946.

N.Y.2d 219, 225 n.*, 228 (App. Div. 1970) (a $45 million cement plant employing 300 people was found to be a nuisance, but the court awarded permanent damages, thereby imposing a servitude on plaintiffs' land).

II. Precedent, Coupled With Evidence Of Legislative And Executive Choices, Counsels Against Ordinarily Obligating Patent Owners To License Other Than Through Arms-Length Bargaining.

A. *Paper Bag* Held That Patent Holders' Obligations To Use Protected Inventions Is Principally For Congress To Determine.

Defendant, in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), argued that plaintiff's unexplained nonuse of patented technology warranted denial of an injunction. Before addressing that question however, the Court chose first to consider the rights conferred, 210 U.S. at 423. On that point, the opinion quotes *United States v. American Bell Telephone Co.*, 167 U.S. 249, 250 (1897), where the Court had rejected a similar argument:

> Counsel seem to argue that one who has made an invention and thereupon applies for a patent therefor occupies, as it were, the position of a quasi trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible. We dissent entirely from the thought thus urged. The inventor is one who has discovered something of value. It is his absolute property. He may withhold the knowledge of it from the public, and he may insist upon all the advantages and benefits which

> the statute promises to him who discloses to the public his invention.

Paper Bag, 210 U.S. at 424.

Although the circuit court had apparently inferred an improper motive from the patentee's nonuse, the Court wrote:

> [I]t is certainly disputable that the nonuse was unreasonable. . . . There was no question of a diminished supply of or increase of prices, and can it be said, as a matter of law, that a nonuse was unreasonable which had for its motive the saving of the expense that would have been involved by changing the equipment of a factory from one set of machines to another? And even if the old machines could have been altered, the expense would have been considerable.

Id. at 429. The Court thus held:

> As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.

Id.

That decision was largely predicated on deference to evidence of congressional choices. The Court pointed out that Congress had not overlooked patentees' nonuse. It had been aware of hostility toward nonuse abroad and, indeed, had briefly imposed forfeiture for aliens' nonuse. But Congress no longer required use by alien, much less domestic, patentees. Although the opinion ends with

recognition that "a court of equity might be justified in withholding relief by injunction," 210 U.S. at 429, it does not elaborate.

B. *Coe* Confirmed That The Consequences Of Nonuse Are Principally For Congress To Determine.

In *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945), the court of appeals had upheld a refusal to grant a patent "upon the ground that petitioner did not intend to make or use the invention. . . . " *Id.* at 371. The Court reversed, however, stating: "[T]he court below assumed that such purpose . . . would invalidate the patent because it would be contrary to the constitutional purpose and to the spirit if not the letter of the patent laws. We think both assumptions are unwarranted." *Id.* at 377.

The Court went on to say: "This Court has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent." *Id.* at 378-79. Once again, it observed: "Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if the patent is not used within a specified time, but has not done so." *Id.* at 379 (notes omitted). Yet, the opinion further states: "The record establishes no intention by petitioner not to use his invention, and no proposed use of it disclosed or suggested by the record affords any basis for withholding the grant of the patent." *Id.* at 380.

Justice Douglas, joined by two others, urged that the patent legislation interpreted in light of the Constitution supported an obligation to use. *Id.* at 380 (Douglas, J.,

dissenting). His opinion cites a 1941 report for the proposition that nonuse and related "maneuvers retard, rather than promote, the progress of the useful arts." *Id.* at 382. He went on to consider "an invention or discovery which unlocks the doors of science and reveals the secrets of a dread disease. Is it possible that a patentee could be permitted to suppress that invention for seventeen years (the term of the letters patent) and withhold from humanity the benefits of the cure?" *Id.* at 383. As addressed above, however, that hypothetical outcome is not only unlikely,[3] but also has no bearing on the present case.[4]

C. *Dawson* Confirmed That Circumstances Warranting Compulsory Licenses Are Principally For Congress To Determine.

Whereas *Coe* considered nonuse but not compulsory licensing, *Dawson Chemical Co. v. Rohm and Haas Co.*, 448 U.S. 176 (1980), considered the converse situation. Rohm and Haas was indeed using its patent – one that claimed the sole known use of an unclaimed product. Because the doctrine of contributory infringement reflected in 35 U.S.C. § 271(c) precluded Dawson from using an unpatented product, it argued that a license should be compelled. The Court disagreed. Once again reflecting deference to Congress, the opinion states: "Compulsory

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[3] *See supra* note 2.

[4] Justice Rutledge, however, maintained that the record did not support a need to address "the interesting and important questions debated by the Court's opinion and my dissenting brethren." *Coe*, 324 U.S. at 384 (Rutledge, J., dissenting). The rejected claims might well have encompassed terrain captured within the doctrine of equivalents, but he would have affirmed the administrative conclusion that the proffered claims were not literally supported by the specification.

licensing is a rarity in our patent system, and we decline to manufacture such a requirement," *id.* at 215.

Most significantly in the context of the present dispute, note 21, appended to the just-quoted language, states: "Compulsory licensing of patents often has been proposed, but it has never been enacted on a broad scale. Although compulsory licensing provisions were considered for possible incorporation into the 1952 revision of the patent laws, they were dropped before the final bill was circulated." *Id.*, n.21.

D. Reluctant To Deter Innovation, The Executive Branch Is Unwilling To Circumvent Patents Despite Short-Term Need And Unambiguous Authority.

Nonuse is akin to suboptimal use of patents. In 2001, following the anthrax scare, the Bush Administration threatened to compromise exclusivity for the drug Cipro when it appeared more would be needed than Bayer could produce.[5] Threats apparently were adequate to address public health concerns, but they generated unintended consequences insofar as other countries had been previously lobbied to reduce or eliminate compulsory licensing.[6] Perhaps as a result, the Bush Administration is now

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[5] *See, e.g.*, Erika Mullenbach, *The Influence of Disease on the Evolution of U.S. Patent Law and Policy Towards Foreign Patent Laws in the Late Twentieth to Early Twenty-First Century*, 7 TUL. J. TECH. & INTELL. PROP. 227, 239-41 (2005).

[6] *Id.* at 232.

apparently reluctant, despite considerable pressure, to compel Roche to license Tamiflu.[7]

The reason, of course, is that the Administration is subject to even more counter pressure. One might think that firms holding exclusive rights, if assured of a reasonable return on investment, would be little affected by having others help meet public needs, but that is not true. The reasons are complex and go well beyond the objections expressed by the petitioners (and the dissenters) in *Kelo v. City of New London, Connecticut,* 125 S.Ct. 2655 (2005).

For example, in *Fromson v. Western Litho Plate and Supply Co.,* 853 F.2d 1568, 1574 (Fed. Cir. 1988), Judge Markey wrote: "Determining a fair and reasonable royalty is often . . . a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge." Risk of error is unavoidable for prior infringement, but injunctions eliminate it for future infringement.

Thus, the Federal Trade Commission, in *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003), recently noted, e.g., Ch. 2 at 32 and Ch. 3 at 38, concern about non-practicing entities. The FTC did not recommend a solution and certainly did not recommend that all non-practicing patentees be limited to only legal remedies, much less regardless of pursuit of arms-length licenses. Had it done so, however, surely its recommendation would have been addressed to Congress, not the courts.

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[7] *See, e.g., House Democrats Press for Compulsory Licensing Authority,* FDA WEEK, Nov. 11, 2005, 2005 WLNR 18263219.

III. The Decision Below Properly Rejected The District Court's Reasons For Denying Equitable Relief To MercExchange.

A. The District Court Did Not Apply Proper Precedent.

In *MercExchange, L.L.C. v. eBay Inc.*, 275 F.Supp.2d 695 (E.D. Va. 2003), a jury returned a verdict finding defendants liable for $35 million for willfully infringing MercExchange's patents. *Id.* at 698. After referring to the court's authority to issue injunctions under 35 U.S.C. § 283, the court states: "[T]he grant of injunctive relief against the infringer is considered the norm; however, the decision to grant or deny injunctive relief remains within the discretion of the trial judge." *Id.* at 711. It also notes the four factors that have traditionally informed courts' discretion before explaining their applicability in this case. *Id.*

Yet, in ultimately refusing injunctive relief, that court failed to cite, much less distinguish, *Paper Bag*. Its failure is remarkable because, in explaining why plaintiff is not irreparably harmed, the opinion stresses that "plaintiff does not practice its inventions and exists merely to license its patented technology to others." *Id.* at 712.

Rather, the trial court relied heavily on *Foster v. American Machine & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974) in limiting MercExchange to its legal remedy. *eBay*, 275 F.Supp.2d at 713. *Foster*, too, failed to cite *Paper Bag* in concluding: "To grant [the patentee] a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair." *Foster*, 492 F.2d at 1324. That is difficult to fathom when that language squarely addresses the central issue

in *Paper Bag*. In any event, it is starkly at odds with the holding of the most relevant precedent.

The district court also relied principally on *Foster* with regard to the balance of hardships when it wrote: "Any harm suffered by the plaintiff, by the defendants' infringement of the patents, can be recovered by way of damages." *eBay*, 275 F.Supp.2d at 714. Thus, three of the factors relevant to equitable relief seem ultimately to have collapsed into one.

With regard to public interest, the fourth factor, the district court did not suggest that MercExchange had misused its patents or that its right to injunctive relief was otherwise compromised by anything discussed above.[8] Nor does its opinion suggest that MercExchange should be subject to the functional equivalent of private inverse condemnation to reduce or avoid serious public health risks.

On the contrary, the court concluded: "[T]he public interest factor equally supports granting an injunction to protect the plaintiff's patent rights, and denying an injunction to protect the public's interest in using a patented business-method that the patent holder declines to practice." *Id.* at 714. Its explanation credits the importance of injunctions in encouraging activities supported by patent grants but again relies on patentee's nonuse. Moreover, with no credible support, that explanation suggests that owners of so-far unlicensed business-method patents would never be entitled to injunctions. *Id.* at 713.

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[8] *Supra* Part I.B.

That qualifies more as a legislative judgment than as an ad hoc exercise of equitable discretion.

B. The Decision Below Applied The Correct Standard Of Review For Injunctions Despite Failure To Recite It Explicitly.

In *Citizens to Preserve Overton Park, Inc. v. Volpe,* 401 U.S. 402, 416 (1971), the Court held that the standard of review for abuse of discretion is narrow, but that decisions, to be upheld, must be based on a consideration of relevant factors and not evidence a clear error of judgment. Many decisions show that the Federal Circuit applies this standard correctly.

Thus, *Hybritech, Inc. v. Abbott Laboratories,* 849 F.2d 1446, 1458 (Fed. Cir. 1988), upheld denial, on public interest grounds, of a preliminary patent injunction against potentially infringing hepatitis and cancer test kits. Likewise, *High Tech Medical Instrumentation, Inc. v. New Image Industries, Inc.,* 49 F.3d 1551, 1556 (Fed. Cir. 1995), upheld denial of a preliminary patent injunction based on, for example, delay and weak evidence of likely success on the merits, particularly absent evidence of harm pendente lite. Most recently, the court, in *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.,* 394 F.3d 1368, 1380 (Fed. Cir. 2005), upheld denial of a permanent patent injunction subsumed by relief already provided in a related proceeding before the International Trade Commission.[9]

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[9] *Jazz Photo Corp. v. U.S.*, 353 F.Supp.2d 1327 (Ct. Int'l Trade 2004); *see also Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094,

(Continued on following page)

In the case on review, however, as discussed above, the trial court ignored the most relevant precedent and, sua sponte, applied a rule prejudicial to a whole class of patent owners. *eBay*, 275 F.Supp.2d at 713. It also applied *High Tech Med. Instrumentation* without considering critical differences between withholding preliminary and permanent relief,[10] or factoring in that the jury found that eBay had not only infringed but had done so willfully. *Id.* at 712. In such circumstances, reversal, even under the abuse of discretion standard, should not require protracted formal discussion.

CONCLUSION

Absent congressional action, owners should be further obligated neither to use nor to permit other private parties to engage in activities forbidden by 35 U.S.C. § 271. For that and other foregoing reasons, the judgment below should be affirmed.

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1110-11 (Fed. Cir. 2001) (disapproving ITC's exclusion of refurbished cameras originally purchased in the United States).

[10] *See, e.g.*, DOUGLAS LAYCOCK, MODERN AMERICAN REMEDIES, 445 (3d Ed. 2002) ("Courts at the preliminary relief stage routinely find no irreparable injury in injuries they would find irreparable after a full trial.").

(24)

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ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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I. THE INTEREST OF AMICUS CURIAE NOKIA CORPORATION

Nokia Corporation ("Nokia") is one of the largest manufacturers of wireless telecommunications equipment in the world.[1] In North America alone, Nokia sold more than 141 million mobile phones in 2004.[2] Nokia employs approximately 55,000 people worldwide, more than 20,000 of whom work in research and development. As a result of this substantial commitment to technological progress, Nokia owns more than 4,000 U.S. patents.

Nokia has recently been involved in numerous patent lawsuits, as both a plaintiff and defendant. Nokia is thus both a significant patent owner that might seek an injunction to protect its patent rights, and a manufacturer in an industry in which patent owners routinely issue threats of injunctions for patent infringement.

Nokia's interest in this case is to advocate for patent laws that protect patent rights as a means for promoting the constitutional goal of developing technology for public benefit, not the judicially created expansion of patent rights as the goal itself. Nokia therefore supports the Petitioners'

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1. No counsel for any of the parties authored any portion of this brief. No entity other than amicus curiae Nokia Corporation monetarily contributed to this brief. *See* Sup. Ct. R. 37.6. The Petitioner and the Respondent consented to the filing of this amicus curiae brief through their respective filings with the Court of December 21, 2005, and December 15, 2005.

2. Nokia is a Finish corporation. Investors in the United States own approximately 46% of the publicly traded shares of Nokia's stock.

request for reversal of the Federal Circuit's interpretation and application of § 283 of the Patent Act.

By ignoring the goal of public benefit, the decision below threatens to thwart the innovative and pro-competitive work of standard-setting organizations ("standards organizations"). In the telecommunications industry, standards organizations devise and implement interoperability standards that facilitate the efficient development of technologically sophisticated and interrelated products. For example, every day, hundreds of millions of people communicate over standards-based mobile phones and wireless networks – all of which interoperate seamlessly even though they involve products made by different manufacturers. A consumer can place a call from a Nokia mobile phone that is received by a Motorola-equipped cell tower, passed through a land-based telephone network to an Ericsson-equipped cell tower, and transmitted to a Samsung mobile phone. This interoperability, made possible only because of standardization and also prevalent in other high-tech industries, promotes competition, increases consumer choice, improves service quality, and reduces prices.

The development of technologically sophisticated products requires substantial capital investment in research, product design, and manufacturing facilities. To encourage many competing industry players to accept interoperability standards, standards organizations recommend standards in which manufacturers can safely invest – secure in the knowledge that any proprietary rights relevant to the standard are free or can be licensed on a fair, reasonable, and non-discriminatory ("FRAND") basis. Standards organizations therefore often require patent owners participating in standards setting to disclose any patents related to a proposed

standard prior to adoption of that proposal. If a patentee declares that its patent covers a proposed standard, the standards organization can consider alternate technology or request that the patent owner agree to forgo exercising full rights of exclusivity by providing either free or FRAND licenses. By balancing the competing interests of patent holders and standards-dependent industries, standards organizations can confer substantial benefits on the public, while still respecting the interests of patent owners. Indeed, the work of standards organizations typically furthers the constitutional goal of patent law – promoting the "useful Arts." That work is now in real and serious jeopardy.

II. SUMMARY OF THE ARGUMENT

The constitutional goal of patent law is to promote the "useful Arts" for public benefit. U.S. CONST. Art. I, § 8, cl. 8. Congress has, accordingly, granted certain rights to patent owners. To promote the constitutional goal of providing *public* benefit, however, Congress has limited the rights of patent owners. Even in a case of patent infringement, for example, Congress has provided that a patent holder may obtain an injunction only "in accordance with principles of equity," 35 U.S.C. § 283. Although Congress might have required courts to issue injunctions upon a finding of patent infringement, it did not impose such stifling rigidity. Instead, Congress has expressly *required* district courts to apply traditional principles of equity to the individual circumstances of each patent infringement case.

In *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005), the Federal Circuit departed from the plain statutory language and therefore traditional equity jurisprudence by holding that a court *must* grant injunctive

relief after a finding of patent infringement, unless the injunction would adversely affect public health. In so holding, the Federal Circuit ignored the fundamental goal of patent law – promoting the "useful Arts" for the benefit of the public – and elevated the means of obtaining that goal – rewards to patent owners – above the goal itself.

The Federal Circuit's decision could particularly encumber the technologically sophisticated industries that fuel the national economy's growth. In these industries, interoperability standards – which allow a manufacturer's products to compete with or complement a competitor's products – promote the progress of the "useful Arts." Traditional principles of equity, including considerations of public interests and the balance of hardships, should weigh heavily when considering the issuance of an injunction that could undermine the development, implementation, or use of interoperability standards, particularly when a plaintiff in a patent infringement lawsuit participated in the standardization process.[3]

The implementation of interoperability standards in technologically sophisticated industries promotes the "useful Arts." But an automatic injunction in favor of a patent owner could undermine that constitutional goal by forcing

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3. A patent owner's own wrongful conduct should also serve to bar equitable relief. *See, e.g., ABF Freight Sys., Inc. v. N.L.R.B.*, 510 U.S. 317, 329-30 (1994) ("The 'unclean hands' doctrine 'closes the door of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant.'" (citation omitted)); *Koster v. (Am.) Lumbermens Mut. Cas. Co.*, 330 U.S. 518, 522 (1947) ("[I]n all . . . petitions for equitable relief, he who seeks equity must do equity.").

manufacturers of useful standards-compliant products to choose between the lesser of two evils – shutting down or paying exorbitant royalties. Either result would likely thwart effective competition, and thus diminish choice and impose greater costs on consumers.

The Federal Circuit's automatic injunction rule also threatens to undermine the cooperation between patent owners and standards organizations that is vital for the adoption of efficiency-enhancing interoperability standards. Critical to standard setting is the development of standards free from threat of shutdown by an injunction-wielding patent owner. In a world of automatic injunctions, however, a strategically opportunistic patentee could manipulate the standard-setting process to obtain such an industry-crippling injunction. For example, a patent owner could encourage the adoption of a proposed standard by agreeing to license its patents on FRAND terms to manufacturers that eventually implement the proposed standard. Then, after the standard is adopted, the unscrupulous patent owner could attempt to renege on its promise and sue the manufacturers implementing the standard for patent infringement. Under *eBay*, despite the patent owner's manipulation of the standard-setting process and contrary promises, he or she could seek and obtain an injunction to prohibit manufacturers from using the standard. Just the threat of such a crippling injunction would potentially allow the patentee to extort exorbitant royalties from manufacturers. In contrast, if traditional principles of equity apply, a reviewing court would have the sound discretion to deny this request for an injunction and instead award relief better suited to the facts of each case.

Furthermore, the Federal Circuit's reliance in *eBay* on property law to reward patent holders with sweeping injunctive protection is misplaced because property owners historically have enjoyed no special exception from the application of traditional principles of equity. Property law, like other areas of the law, has instead long recognized that injunctions should not be awarded automatically but, rather, should be assessed based on the traditional factors of equity. Because the Federal Circuit's *eBay* decision conflicts with the goal of patent law and lacks support in property law, it should be reversed.

III. ARGUMENT

A. The Decision Below Thwarts Congress's Efforts To Attain the Constitutional Goals of Patent Law.

The constitutional goal of patent law is the social-utilitarian promotion of technological innovation for public benefit – "To promote the Progress of . . . useful Arts." U.S. CONST. Art. I, § 8, cl. 8. Ironically, the path to encourage innovation and public enjoyment of innovation required by the U.S. Constitution is to limit public access to inventions by granting inventors certain exclusive rights to their technology. *Id.* These exclusive rights allow patent owners to capture some of the value of their inventions and thereby provide the incentives necessary to support innovation. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989); *Diamond v. Chakrabarty*, 447 U.S. 303, 307 (1980); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917).

Those exclusive rights are nevertheless merely instrumental means of achieving substantive public benefits.

See Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 535 U.S. 722, 730-31 (2002); *Bonito Boats, Inc.*, 489 U.S. at 150-51; *Motion Picture Patents Co.*, 243 U.S. at 510-11. Patent law therefore carefully calibrates the rights granted to patent owners to maximize the benefits to the public. A fundamental tension in this calibration exists between affording protections to patent owners and simultaneously allowing others to use the patented technology to otherwise promote the "useful Arts." Thus, "the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc.*, 489 U.S. at 146; *see also* Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, 1 INNOVATION POL'Y & THE ECON. 119, 120 (Adam B. Jaffe, et al. eds., 2001) ("With cumulative innovation and multiple blocking patents, strong patent rights can have the perverse effect of stifling, not encouraging, innovation.").[4]

In striking this balance, the patent laws consequently place distinct limitations on the scope of patent owners' exclusive rights. For example, upon a finding of willful infringement, patent owners may receive damages "up to three times the amount found or assessed." *See* 35 U.S.C.

4. *See also* Fed. Trade Comm'n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION & PATENT LAW & POLICY 1 (2003), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf ("Competition and patents stand out among the federal policies that influence innovation. Both competition and patent policy can foster innovation, but each requires a proper balance with the other to do so. Errors or systematic biases in how one policy's rules are interpreted and applied can harm the other policy's effectiveness.").

§ 284. Given that a patent owner possesses the exclusive right to use the patented technology, it is significant that Congress nonetheless chose to cap willful infringement damages. By allowing greater damages – for example up to 10 times the amount found or assessed – Congress could have provided the patent owner with greater protection from infringement, by erecting more severe deterrents against infringement, but Congress has implicitly determined that such expanded benefit for the patent owner would ultimately restrict innovation.

Similarly, § 283 of the Patent Act recognizes the need for limitations on the rights of patentees and accordingly provides that district courts "may" – not shall – grant injunctions once infringement is found, and then only "in accordance with principles of equity." 35 U.S.C. § 283. As Congress appreciated when it enacted § 283, these traditional principles of equity require district courts to evaluate the specific facts of a case, paying particular attention to the potential public consequences of issuing an injunction to a private party and the balance of hardships between the patent owner and the infringer. *See Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) ("'The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it' . . . . In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction." (citation omitted)).[5] Although automatic

5. Traditionally, in determining whether to award an injunction in accordance with the principles of equity, courts weigh the two factors noted above as well as (1) whether the patent owner would

(Cont'd)

injunctions would provide even greater rewards to patent owners, Congress has implicitly determined that the *public* interest of promoting "the Progress of . . . useful Arts" would be better served if experienced district court judges determine whether to grant injunctive relief by weighing these factual, equitable considerations.

The Federal Circuit's decision thus departs from the plain text of § 283. By assuming away the social-utilitarian purpose of constitutional patent law and granting patent owners expansive equitable rights, the Federal Circuit undermined the careful calibration that Congress struck in granting more appropriately measured rights to patent owners. But as this Court has recognized, this calibration is for Congress to decide, not the Federal Circuit. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984)

(Cont'd)

suffer irreparable injury, and (2) whether legal remedies provide adequate relief. *Weinberger*, 456 U.S. at 312. The Petitioner in its Petition for Certiorari and many of the amici curiae who filed briefs in support of that Petition have adequately argued that 35 U.S.C. § 283 empowers and requires courts to consider all four factors when making equitable determinations regarding injunctions in patent infringement cases. *See* Pet. for Writ of Cert., 2005 WL 1801263, at *11; Amicus Curiae Br. of Am. Online, Inc., 2005 WL 2381069, at *7; Amicus Curiae Br. of 35 Intellectual Property Professors, 2005 WL 2381070, at *2. Nokia incorporates those arguments by reference, but does not repeat them here to avoid burdening the Court. *See* Sup. Ct. R. 37.1. Because equitable remedies must be fundamentally fair, *see* DAN B. DOBBS, DOBBS LAW OF REMEDIES, § 2.1(3) (2d ed. 1993), courts may also consider the wrongful conduct of the plaintiff in determining whether to grant equitable relief. *See Koster v. (Am.) Lumbermens Mut. Cas. Co.*, 330 U.S. 518, 522 (1947) ("[I]n all . . . petitions for equitable relief, he who seeks equity must do equity.").

("[I]t is Congress that has been assigned the task of defining the scope of [rights] that should be granted to authors or to inventors in order to give the public appropriate access to their work product."); *see also Eldred v. Ashcroft*, 537 U.S. 186, 212 (2003) (holding that, in the context of determining whether extension of the copyright term is constitutional, "[w]e have also stressed, however, that it is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause's objectives"). Accordingly, the Federal Circuit's decision should be reversed: district courts should be allowed to exercise both the discretion Congress granted them to weigh the traditional equitable factors and the ability to refuse to grant injunctive relief for patent infringement where appropriate.[6]

B. The Decision Below Threatens To Retard the Progress of the "Useful Arts" by Undermining Interoperability Standards that Are Vital to Technologically Sophisticated Industries.

1. Interoperability standards are vital to technologically advanced industries.

Interoperability standards are vital to the enormous wealth-creating potential of many technologically advanced industries. *See generally* William J. Baumol, THE FREE-MARKET INNOVATION MACHINE: ANALYZING THE GROWTH

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6. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), is consistent with Congress's mandate that courts "may" grant injunctions once infringement is found, but only "in accordance with principles of equity," 35 U.S.C. § 283. *Continental Paper Bag* held that a district court – on the particular facts of that case – *could* award injunctive relief to a patent owner, 210 U.S. at 430. The Court did not address whether there are circumstances in which a court must or could not award injunctive relief.

MIRACLE OF CAPITALISM (2002) (noting the central importance of innovation and technology-sharing among firms for economic growth). But with numerous patents potentially covering such products, technologically advanced industries often face a "patent thicket" – a morass of overlapping patents owned by many different parties – that presents a severe obstacle to the development, production, and delivery of new products to the consuming public. *See* Shapiro, *supra*, at 119, 120 ("In several key industries, including semiconductors, biotechnology, computer software, and the Internet, our patent system is creating a *patent thicket*: an overlapping set of patent rights requiring that those seeking to commercialize new technology obtain license from multiple patentees."). Interoperability standards can cut a clear path through that thicket – while still respecting the rights of patent owners. *Id.* at 128.

For example, standards may be developed that use only technology found in the public domain. To develop such standards, a standards organization may require that members[7] declare any patents related to a proposed standard. The standards organization would then strive to adopt a standard that avoids patented technology. *See, e.g., Rambus Inc. v. Infineon Tech AG*, 318 F.3d 1081, 1086 (Fed. Cir. 2003).

Most frequently, however, patented technology offers benefits unavailable in the public domain. Nevertheless, an interoperability standard incorporating such patented technology may be able to remedy the problems caused by a patent thicket. To do so, many standards organizations require all members to

7. Standards organizations are typically comprised of industry participants that also own substantial patent portfolios. Nokia is a member of 50 standards organizations that service various aspects of the wireless telecommunications industry. *See* Nokia.com, Nokia's Memberships. *http://www.nokia.com/nokia/0,8764,33306,00.html* (last visited Jan. 25, 2006).

declare patents related to a proposed standard and also to agree in return to surrender some rights to exclusivity by agreeing to license those patents on free or FRAND terms if the standard is ultimately adopted.[8] FRAND licenses typically benefit everyone: the patent owner receives a steady stream of reasonable royalties from the *entire* industry using the standard, and consumers reap the benefit of a competitive playing field that would otherwise be severely constrained and decidedly tilted in favor of certain patentees who could hold an industry hostage by demanding crippling royalties.

The danger of a patent thicket obstructing the development of technologically sophisticated products is very

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8. One commentator has stated that the following domestic and international standards organizations have policies promoting the development of interoperability standards either unburdened by patent rights or only subject to FRAND licensing: World Wide Web Consortium, Institute of Electrical and Electronics Engineers, The Internet Engineering Task Force, RosettaNet , International Telecommunications Union, International Organization for Standardization, American National Standards Institute, National Institute of Standards and Technology, European Telecommunications Standards Institute, ATM Forum, CEN/CENELEC, Parlay Group, Open Mobile Alliance, Distributed Management Task Force, Mobile Wireless Internet Forum, Open Services Gateway Initiative, Open Group, Frame Relay Forum, ECMA, J Consortium, JEDEC Solid State Technology Association, Oasis, Public Key Infrastructure Forum, Software Defined Radio Forum, PCI Industrial Computer Manufacturers Group, The Salutation Consortium, Standards Council of Canada, Society of Cable Telecommunications Engineers, Alliance for Telecommunications Industry Solutions, Global Platform, and the Telecommunications Industry Association. *See* Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1904 (2002).

real. Shapiro, *supra*, at 122-28. In recent years, the number of patent applications filed with the United States Patent and Trademark Office ("USPTO") and the number of patents issued by the USPTO have skyrocketed. In 1985, the USPTO received a total of 125,931 patent applications. *See* Table 2: Patent Applications Filed, *http://www.uspto.gov/web/offices/com/annual/2005/060402_table2.html* (last visited Jan. 21, 2006). By the end of 2005, that number had more than tripled to 409,532. *Id.* Similarly, in 1985, the USPTO issued approximately 77,400 patents; in 2005, the USPTO issued 157,900 patents.[9]

Interoperability is especially vital to technological fields where a product's value is dependent upon its capacity to complement a competitor's products. CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES: A STRATEGIC GUIDE TO THE NETWORK ECONOMY 173-226 (1999). Such "network markets" generally involve products "whose entire value lies in facilitating interactions between a consumer and others who own the product." Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CAL. L. REV.

9. This growth has been particularly dramatic in high technology fields. For example, many technologically advanced products, including computers, modems, mobile phones, digital music players, and DVD players, contain some sort of microprocessor. In the past three years, approximately 33,000 patents were granted containing patent claims describing "processors" or "microprocessors." Likewise, in the same time period, close to 9,000 patents were issued containing patent claims describing "wireless" applications. *See also* Fed. Trade Comm'n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION & PATENT LAW & POLICY 31 (2003), *available at http://www.ftc.gov/os/2003/10/innovationrpt.pdf* (noting that the "growth of the knowledge-based economy presents several challenges to the patent system . . . [including] the sheer number of patents sought and received").

479, 488 (1998). For example, the markets for mobile telephones, computer modems, and various Internet applications are all network markets. SHAPIRO & VARIAN, *supra*, at 264-70. Many of the network benefits inure to consumers – the more people who use mobile phones, computer modems, and the Internet, the more useful that technology becomes to consumers.[10] *Id.* at 175-84; *see* Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1896 (2002).

In network markets, the need for standardization is particularly acute. SHAPIRO & VARIAN, *supra*, at 229. For example, *every* mobile phone is based on some mobile phone standard. The most successful of these standards – the Global System for Mobile communications ("GSM") standard – is the basis for mobile phones used by almost one out of every 4 people on the planet – a total of 1.6 billion people. *See* GSM World - The Website of the GSM Association, *at* http://www.gsmworld.com/index.shtml (last visited Jan. 21, 2006).

This and other interoperability standards provide many useful benefits to society. In addition to supporting the very existence of some technologically advanced markets, interoperability standards enable greater competition among manufacturers. SHAPIRO & VARIAN, *supra*, at 231-33; *see* U.S. Dep't of Justice & Fed. Trade Comm'n, ANTITRUST GUIDELINES FOR COLLABORATING AMONG COMPETITORS 1 (2000), *available*

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10. Of course, under the right circumstances, a single entity could operate a network market, obviating the need for interoperability standards. AT&T, for example, once operated the only long-distance telephone network in the United States. *United States v. Am. Tel. & Tel. Co.*, 552 F. Supp. 131 (D.D.C. 1982). Such a single-entity network, however, would likely have monopoly power that it may assert to the detriment of consumers. *See id.*

at http://www.ftc.gov/os/2000/04/ftcdojguidelines.pdf. For example, because mobile phones made by Nokia, Motorola, and Samsung can operate in the same wireless telecommunications networks, these manufacturers compete in the same mobile telephone market. Likewise, digital computer memory made by Infineon Technologies AG competes with memory made by Samsung Electronics. Such robust competition produces better products and lower costs for consumers. Interoperability also reduces production costs for technologically sophisticated products. Interoperability expands the markets for these products – whether mobile phones, digital memory, or any other technologically sophisticated product – providing greater economies of scale, which ultimately reduce the costs paid by consumers. By conferring these many benefits, interoperability standards promote the "useful Arts."

2. The decision below prevents district courts from considering the serious harm that an injunction might cause to interoperability standards and to the public interests these standards promote.

In technologically sophisticated industries, the path through the patent thicket cut by an interoperability standard may be exceedingly narrow. Despite the best efforts of standards organizations and manufacturers to forge a clear path through the patent thicket – a path that supports the industry and simultaneously respects the rights of patent owners – obstacles remain: products may still infringe a patent by complying with a standard. Shapiro, *supra*, at 120-21. Given the enormous number of patents related to technologically sophisticated products, this uncertainty is an unavoidable by-product of advanced technology and a

proliferation of patents. After an interoperability standard is established, however, the switching costs of changing standards are frequently prohibitive. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 473 (1992) (noting that sunk costs may prevent switching from one product to another); DANIEL G. SWANSON, EVALUATING MARKET POWER IN TECHNOLOGY MARKETS WHEN STANDARDS ARE SELECTED IN WHICH PRIVATE PARTIES OWN INTELLECTUAL PROPERTY RIGHTS 5 (2002), *available at* http://www.ftc.gov/opp/intellect/020418danielswanson.pdf; *see also* SHAPIRO & VARIAN, *supra*, at 103-34 (discussing the "lock in" that occurs from selecting one economic option). Accordingly, the Federal Circuit's automatic injunction rule could have the unintended consequence of enabling a patent owner whose patent covers a standard to seek exorbitant royalties, stymie competition, and ultimately harm public interests promoted by interoperability standards. *See* U.S. Dep't of Justice & Fed. Trade Comm'n, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 2.3 (1995), *available at* http://www.usdoj.gov/atr/public/guidelines/0558.htm (noting harm to consumers if technology license holders are allowed to "anticompetitively foreclose access to competing technologies").

Frequently, standards take years to develop. Development of the GSM standard, for example, began in 1982, but GSM-compliant products were not available until approximately 1991. Despite the diligent efforts of manufacturers and standards organizations to avoid infringing patents, there can be a substantial time lag before manufacturers discover that some patent is essential to an

interoperability standard. For example, a patent covering a standard may not issue until after the standard is adopted. *Reiffin v. Microsoft Corp.*, 104 F. Supp. 2d 48, 49 n.3 (D.D.C. 2000) ("Patents that remain 'submerged' during a long *ex parte* examination process and then 'surface' upon the grant of the patent have been labeled 'submarine patents.' A holder of a 'submarine patent' may be able to demand high royalties from non-patent holders who invested and used the technology not knowing that a patent would later be granted." (internal quotation marks and citation omitted)). By the time an infringement is discovered, it would be enormously expensive for the standards-based industry to change the standard to avoid infringing the patent. And even after changing the standard, manufacturers would face substantial additional costs and delays necessary to redesign their products and retool their production facilities.

These market realities, combined with an automatic injunction rule for patent infringement, create the acute potential for patent owners to "hold up" industries based on interoperability standards for exorbitant royalties, or even to paralyze those industries altogether. *See, e.g.*, *Rambus*, 318 F.3d at 1086 (involving infringement claim by patent owner who had been a member of a standard-setting organization for the computer memory industry); *InterDigital Tech. Corp. v. OKI Am., Inc.*, 845 F. Supp. 276, 281 (E.D. Pa. 1994) (involving claim by patent holder that multiple manufacturers infringed patents by complying with wireless telecommunications standards).[11] Indeed, an injunction could force upon manufacturers a Hobson's Choice of either (1) losing the substantial investments they have made in good faith to develop their products and production facilities or

11. Ultimately, there was no finding of patent infringement in the cited cases.

(2) paying excessive royalties. Shapiro, *supra*, at 125 (describing the hold-up problem). When standards enjoy widespread use, as they do in the wireless telecommunications industry, an industry shutdown would harm hundreds of millions of consumers, a result that would be precisely contrary to the constitutional, social-utilitarian goal of promoting the "useful Arts."

In fact, the mere threat of injunction-backed exorbitant royalties may undermine effective competition and raise costs for consumers.[12] Such threats may limit the adoption of an interoperability standard and thereby reduce the public benefits of the standard. *In re Dell Computer Corp.*, 121 F.T.C. 616, 618 (1996) (alleging, in a complaint filed by the Federal Trade Commission, that, because of the patent owner's claim that its patent covered a standard – where the patent owner had been a member of the standards organization that developed the standard – "[w]illingness to participate in industry standard-setting efforts have been chilled"). Threats by patent owners that their patents are essential for standards may also force manufacturers to incur legal fees to demonstrate that those threats lack merit. *See, e.g., Motorola, Inc. v. InterDigital Tech. Corp.*, 121 F.3d 1461, 1465 (Fed. Cir. 1997) (involving suit for declaratory injunction of non-infringement after patent owner claimed in *OKI Am., Inc.*, 845 F. Supp. at 281, that its patented technology was essential to wireless telecommunications standards); *Ericsson, Inc. v. InterDigital Commc'ns Corp.*,

12. Moreover, excessive royalties do not effectively promote innovation. As noted above, the amount of such royalties is determined by the substantial resources already invested into the development and implementation of standards – not the intellectual value of the patented invention. *See Motion Picture Patents Co.*, 243 U.S. at 511.

No. 3:93-CV-1809-M, 2004 WL 1636924, at *1 (N.D. Tex. June 3, 2004) (same); *see also Nokia Corp. v. InterDigital Commc'ns Corp.*, No. Civ.A. 05-16-JJF, 2005 WL 3525696, at *1 (D. Del. Dec. 21, 2005) (involving Lanham Act claim regarding patent owners claims of essentiality). The specter of excessive royalties, moreover, may actually discourage research and innovation in matters closely related to the patented technology. *See* Shapiro, *supra*, at 126 (noting that with patent thickets, "some companies [may] avoid the mine field altogether, i.e., refrain from introducing products for fear of hold-up"); *see also Bonito Boats, Inc.*, 489 U.S. at 151 (noting the importance of "competition in the exploitation of unpatented designs and innovations"). Thus, the Federal Circuit's judicially created reward of expansive injunctive relief to patent owners undermines – if not directly opposes – the patent law's ultimate goal of promoting innovation for the public benefit.

In contrast, a court applying traditional equitable considerations to the facts of a case would have the discretion to refuse to grant an injunction that harms the public and undermines the basic goal of patent law.[13] *See Weinberger*, 456 U.S. at 312 (noting that "courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction"); *Yakus v. United States*, 321 U.S. 414, 440 (1944). To prevent such a counterproductive result, Congress has empowered courts to deny requests for injunctive relief for reasons other than harm to public health. 35 U.S.C. § 283. Although patents

13. As noted, equitable determinations involve multiple factors, including the impact on public interests, but no single factor is dispositive. *See, e.g., Sanborn Mfg. Co. v. Campbell Hausfeld/Scott Fetzer Co.*, 997 F.2d 484, 485-86 (8th Cir. 1993).

that are ultimately determined to be essential to standards should receive appropriate legal protection, if an injunction would harm public interests and would threaten to impair the progress of the "useful Arts" – or if other equitable considerations also disfavor injunctive relief – a court must retain the discretion to deny a request for an injunction even after a finding of patent infringement.[14]

3. The decision below prevents district courts from considering the balance of hardships between patent owners and manufacturers and thus discourages cooperation that is vital to standards organizations.

The Federal Circuit's failure to recognize the importance of the balance of hardships threatens to restrict efficiency-enhancing cooperation between patent owners and manufacturers that is vital to innovation. This pro-competitive cooperation will be especially threatened if a patent owner who abuses the standard-setting process, for example, by attempting to abandon his promise to license on FRAND terms, is able to obtain an automatic injunction to the detriment of manufacturers that implement the standard and consumers who depend on the products.

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14. Indeed, even if a patent does not cover a standard, a court considering a request for an injunction should consider the equities, including public policy implications, before awarding such relief. An injunction might harm many millions of consumers and thereby inhibit the progress of the "useful Arts," even if it is not part of a standard. For example, if a patent covered some aspect of Nokia's network infrastructure equipment, wireless network operators potentially could be enjoined from operating their networks, and hundreds of millions of consumers could be affected. Pursuant to § 283, district courts considering a request for an injunction should have discretion to weigh, *inter alia*, the public harm against the private benefit of the injunction.

Because of the problems that may arise when a patent covers a standard (noted above), standards organizations strive to develop standards free from threats of injunctions from patent owners. Consequently, standards organizations frequently require patent owners participating in the standard-setting process to declare whether any of their patents cover a proposed standard. After a patent owner declares a patent, the standards organization may choose another technology to avoid the patented technology. Alternatively, the standards organization may ask the patent owner to agree to provide free or FRAND licenses to those patents to manufacturers using the standard.[15] Shapiro, *supra*, at 138. In the wireless telecommunications industry, standards organizations typically require a patent owner to commit to license a patent on FRAND terms when the patent owner declares that patent to be essential to a given standard.

In the hopes of obtaining enormous royalties, however, some strategically minded patent owners may remain silent despite the standards organization's request for patent declarations. Similarly, patent owners may declare their patents to the standards organization, promise to provide free or FRAND licenses, and then attempt to renege on those promises. Once the standard is adopted by the industry, the patent owner – armed with an injunction issued pursuant to the Federal Circuit's *eBay* decision – could hijack the standard by suing the manufacturers implementing the standard for patent infringement. *See, e.g.*, *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*, No. CV 92 4698JGD, 1993 WL 645936, at *4-*5 (C.D. Cal. Dec. 17, 1993); *Dell Computer Corp.*, 121 F.T.C. 616 (1996). Such an

15. *See* footnote 8 *supra* (listing standards organizations employing these policies).

infringement suit would almost be guaranteed to succeed because the patented technology was made part of the standard.

Under the Federal Circuit's *eBay* decision, such a patent owner who succeeds on the merits of his claim would automatically receive injunctive relief, thereby forcing the manufacturer either (1) to accede to the patent owner's demands for exorbitant royalties; or (2) to face the risk of being forced to cease operations while litigating the impact of the patent owner's strategic refusal to declare its patents, *see, e.g.*, *Rambus Inc.*, 318 F.3d at 1086 (involving patent infringement claim by patent owner who had been a member of a standards organization who had not declared the patent to the organization during the standard-setting process); *Dell Computer Corp.*, 121 F.T.C. 616 (1996) (similar, in the context of an investigation by the Federal Trade Commission), or its reneging on its promise to provide free or FRAND licenses, *see, e.g.*, *Broadcom Corp. v. Qualcomm, Inc.*, No. 05-3350 (D.N.J. filed July 1, 2005) (currently pending case involving claim that patent owner who participated in standard setting violated antitrust laws by refusing to fulfill FRAND commitments).[16] These additional costs would seriously undermine the considerable public benefits flowing from the work of standards organizations.

A court evaluating the traditional equitable factors, however, should be able to refuse to issue an injunction in these situations because the balance of hardships would not favor the patent owner – who induced the infringement –

16. The infringement action of a patent owner that participates in standard setting or commits to FRAND licensing in connection therewith should also be barred by other legal doctrines, including but not limited to implied license, promissory estoppel, and equitable estoppel.

Effectively, the court in *Boomer* refused to allow the plaintiffs – owners of infringed property – to seek exorbitant damages from and thereby inflict disproportionate harm on Atlantic Cement. If the court had granted an injunction, the local property owners would be able to hold up Atlantic Cement, seeking payment commensurate with the substantial cost of Atlantic Cement relocating its operation. *See* John Cirace, *A Synthesis of Law & Economics*, 44 S.W.L.J. 1139, 1168-77 (1990) (citing *Boomer* and Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1106-10 (1972)). Instead, the court determined the extent that the property values were reduced by the nuisance and effectively awarded damages in that amount.

The patent "hold up" problems in the context of technologically sophisticated industries are similar to those in *Boomer*. As described earlier, because of the substantial investment manufacturers must make in developing products and interoperability standards, a patent owner may be able to hold up manufacturers for royalties that far exceed the harm to the patent owner from the infringement or the intellectual value of the patent. As in *Boomer*, courts must be free to weigh equitable considerations to determine whether a patent infringement suit presents a "hold up" situation in which injunctive relief is inappropriate.

IV. Conclusion

Thus, "[t]o promote the Progress of the . . . useful Arts," district courts must have the discretion to deny injunctive relief, in appropriate circumstances, on the basis of equity. Accordingly, Nokia respectfully submits that this Court should reverse the Federal Circuit's decision in *eBay*.

Respectfully submitted,

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over the infringing manufacturer. *ABF Freight Sys.*, 510 U.S. at 329-30 (describing the "unclean hands" doctrine). Had the patent owner either (1) responded to the standards organization's request for a declaration of patents related to the proposed standard or (2) not represented that it would provide and honor free or FRAND licenses, the standard perhaps would not have been adopted, and the infringer probably would not have used the patented technology. Indeed, the patent owner may have been a member of the standards organization and *advocated* for the adoption of the proposed standard.[17] *See, e.g., Rambus Inc.*, 318 F.3d at 1086; *Dell Computer Corp.*, 121 F.T.C. at 616. Furthermore, the patent owner who promises to provide free or FRAND licenses has in fact contracted away any right to an injunction. The patent owner will have received valuable consideration in exchange for its FRAND commitment – a steady stream of FRAND royalties from the entire industry using the standard. Under these circumstances, the balance of hardships would tilt decidedly against the patent owner, and, consequently, a district court should refuse injunctive relief in the exercise of its statutory discretion to do so.

C. Property Law Has Long Recognized that Injunctive Relief May Be Denied when an Injunction Would Harm the Public Interest and the Balance of Hardships Does not Favor the Property Owner.

Although promotion of the "useful Arts" favors the denial of injunctive relief in many patent infringement cases, the Federal Circuit held that injunctions should automatically be awarded because, according to the Federal Circuit, property law generally requires injunctive protection for

17. *See* footnote 16, *supra*.

property rights, unless the denial of a request for an injunction is necessary to protect public health. *eBay*, 401 F.3d at 1338. This rationale is untenable: property law and its scholars have long recognized that requests for injunctive relief should be denied when equity requires, particularly when the impact on public interests and the balance of hardships weigh heavily against issuance of an injunction.[18]

For example, in *Boomer v. Atlantic Cement, Co.*, 26 N.Y.2d 219 (1970), the New York Court of Appeals denied a request for an injunction on equitable grounds. In *Boomer*, Atlantic Cement Co. operated a cement factory. *Id.* at 222. The plaintiffs – owners of land near the factory – alleged that dirt, smoke, and vibration emanating from the factory was a nuisance to their property rights. *Id.* The New York court found that Atlantic Cement had indeed created a nuisance, *id.*, and noted that injunctive relief was generally available upon such a finding, *id.* at 223-24.

The court, however, *refused* to enjoin the operation of the cement factory, as requested by the plaintiffs. The court noted that the total damage to the plaintiffs was small, approximately $185,000, compared to the harm to Atlantic Cement if forced to shut down, approximately $45,000,000; the balance of hardships favored Atlantic Cement. *Id.* at 225 & n.*. The court also noted that the public interest in the operation of the plant favored denying the request for injunctive relief. *Id.* at 227.

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18. Moreover, the property nature of patents, established by 35 U.S.C. § 261, is explicitly "[s]ubject to the provisions of [Title 35]," including 35 U.S.C. § 283, which grants courts the discretion to deny requests for injunctions on the basis of equity.

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EBAY INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICUS CURIAE PHARMACEUTICAL RESEARCH AND MANUFACTURERS OF AMERICA IN SUPPORT OF RESPONDENT

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INTEREST OF AMICUS CURIAE[1]

The Pharmaceutical Research and Manufacturers of America ("PhRMA") is a voluntary, nonprofit association representing the nation's leading research-based pharmaceutical and biotechnology companies. Member companies are in the business of developing new drugs – a complex process involving huge expenditures of time and money. In 2005 alone, PhRMA members invested an estimated $39.4 billion toward the discovery and development of new medicines. Collectively, PhRMA members are responsible for a huge portion of the innovative medicines approved for use in the United States in the past several decades.

Pharmaceutical companies spend many years working to develop each new drug that appears on the market, as well as many that will never earn approval. The process typically begins with creating a new compound or screening hundreds of thousands of existing compounds. The most promising compounds are then modified to optimize their properties, thus producing a candidate drug. At that point, both compounds and their potential uses are often separately patented. Selected compounds are then tested in the lab and in animals to determine whether they might effectively and safely treat a disease. This is followed by clinical trials in normal human volunteers and a series of studies in a relatively small number of patients. The next stage of development is a series of large clinical trials testing the effectiveness as well as the safety of a drug in patients. These clinical trials, which typically take six to eight years,

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[1] Counsel for both parties have consented to the filing of this brief, and the parties' letters of consent have been filed with the Clerk of Court. No counsel for any party authored this brief in whole or in part, and no person or entity, other than the *amicus curiae* and its counsel, contributed monetarily to the preparation or submission of this brief. A complete listing of PhRMA's members is available online at http://www.phrma.org/member_company_list/.

precede the process of seeking approval from the Food and Drug Administration ("FDA"). Altogether, the entire drug development process might last upwards of fifteen years.

Given the time and financial expenditures necessary to develop new drugs, intellectual property principles, especially those involving the protection of patent rights, are of critical importance to PhRMA members and their research and development efforts. PhRMA has a strong interest in seeing the law continue to protect those patent rights essential to ensuring future innovation and the timely development of new medicines. As practitioners in an industry where research and development are expensive and competition is fierce, PhRMA's members need strong patent protection to be able to recoup the costs of their investments.

In this case, the Federal Circuit accurately applied existing, settled law, including the general presumption in favor of granting a permanent injunction after a jury has determined a patent to be both valid and infringed. Failing to affirm that decision would significantly undermine the confidence of innovators like PhRMA members in their ability to enforce patents against infringers. Further, overruling *Continental Bag* would upset over a century of settled law and will make it difficult for innovators to enforce patents on the successful discoveries that were picked from a broader field of potential patented compounds.

SUMMARY OF THE ARGUMENT

Although professing to apply traditional standards, Petitioners in fact seek to weaken the patent system dramatically. Revising settled law to suit Petitioners' convenience will profoundly impact all industries that rely upon strong patent protection, not just theirs. Patent law, as it currently exists, has a long history of successfully promoting innovation. PhRMA members in particular, and the pharmaceutical industry in general, rely heavily upon the

certain and well-defined protections that patent law currently provides. In light of the high cost of research and development and the low probability of finding and marketing a successful product, pharmaceutical companies must have strong assurances that any resulting intellectual property will be protected. Absent such protection, the development of new drugs will slow as the incentive to invent and invest diminishes. Given the ease with which infringers can reverse engineer pharmaceutical products and the profits available to those who steal rather than develop them, injunctive relief offers in many circumstances the only effective protection. Limiting the availability of an injunction after a judge or jury have found a patent to be valid and infringed would severely undermine the patent system and drive up the cost of innovation.

The purpose of patent law is to create an incentive for inventors both to innovate and to share their discoveries and inventions with the rest of society. A functioning patent system enables inventors to profit from the exercise of their creativity and hard work by procuring for them the temporary right to exclude others from the fruits of their labors. The patent system simultaneously creates the incentive to spur innovation, the means to protect it, and the method for its wide public dissemination.

Petitioners incorrectly suggest that a presumption in favor of permanent injunctions – once a patent has been found to be valid and infringed – is inconsistent with the district courts' equitable discretion. But as this Court has just recently reiterated, a law calling for an exercise of judicial discretion does not preclude recognition of standards or presumptions to guide that discretion. Where a jury has determined a valid patent is violated, the patent holder should be presumptively entitled to a permanent injunction. This is not an unjust or unreasonable bias in favor of patent holders;

it merely reflects the fact that after conducting a trial and winning a jury verdict, a patent holder is generally entitled to have society vindicate the right Congress gave her to exclude others from her intellectual property. At that point, a number of legitimate interests favor the grant of injunctive relief.

This Court should reject Petitioners' request to ignore the traditional factors favoring the grant of a permanent injunction for patent infringement. The right to exclude constitutes a central and well-settled aspect of both traditional and intellectual property rights. The right to invoke the state's power to enforce that right merely represents the patent holder's return on her bargain with society. Alternatives are inadequate, imprecise and ultimately inhibit the development of voluntary institutions that would otherwise reduce transaction costs by allowing the parties to set prices. In addition, consideration of an infringer's hardship is only required where that hardship is not an inseparable part of the patent holder's right. Similarly, the public interest exception to the presumption in favor of injunctive relief applies only in extremely rare instances. Courts have consistently concluded that the public interest almost always receives greater benefit from a functioning and reliable patent system than short-term increases in competition. Finally, whether or not a patent holder practices an invention is not a relevant consideration in the quid pro quo patent structure implemented by Congress, which requires only disclosure of the invention in exchange for a limited monopoly. Imposing a use requirement will result in fewer inventors seeking patent protection and thus less innovation reaching the public.

ARGUMENT

I. INJUNCTIONS ARE ESSENTIAL TO PATENT HOLDERS, ESPECIALLY IN THE PHARMACEUTICAL INDUSTRY.

The pharmaceutical industry depends for its very existence upon strong, reliable patent protection including the general rule that injunctive relief will be granted against patent infringers absent exceptional circumstances. The expectation that patent infringement will be enjoined after a full hearing in the courts and a finding of infringement and validity has been a fixture in the law during a period of tremendous growth of research and development ("R&D") spending in the drug industry.[2]

More so than most, the pharmaceutical industry has extremely high R&D costs. By some estimates, the average fully capitalized cost for developing new drugs is roughly $800 million per drug, and is predicted to climb to $1.9 billion by 2013. *See* Joseph A. DiMasi, *et al.*, *The Price of Innovation: New Estimates of Drug Development Costs*, 22 J. Health Econ. 151, 166, 181 (2003); Christopher P. Adams and Van V. Brantner, *Estimating the Cost of New Drug Development: Is It Really $802 Million?*, 25 Health Affairs 420, 427 (March/April 2006) ("Our estimate of $868 million suggests, if anything, that $802 million is an underestimate."); *see also Good Chemistry*, The Economist,

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[2] The issues in this case do not relate to enforcement of patents under the Hatch-Waxman Act against generic drug companies that file Abbreviated New Drug Applications (ANDAs). These enforcement actions have a separate and automatic remedy that precludes the FDA from approving a generic drug company's infringing product before "the date of the expiration of the patent which has been infringed." 35 U.S.C. § 271(e)(4)(A). As Congress has mandated that when there is infringement "the court shall" provide such an order, *id.*, district courts have no discretion to deny this remedy.

Feb. 4, 2006, at 58 ("The cost of developing a new drug to be marketed worldwide is usually put at about $1 billion.").

Costs are high in large part because there are so many compounds that initially look promising but, after years of research and millions of dollars, prove ineffective or unsafe. Researchers must investigate anywhere between 5,000 and 10,000 compounds to identify five drugs eligible for clinical trials. This pre-clinical winnowing takes years and costs millions of dollars. In the end, of the five drugs accepted for clinical testing in humans, the FDA will approve one. Pharm. Research & Mfrs. of Am., *Pharmaceutical Industry Profile 2005*, March 2005, at 4, http://www.phrma.org/files/2005IndustryReport.pdf. And of course, FDA approval alone does not guarantee a successful financial return on investment. Roughly seven out of ten drugs approved by the FDA never earn back the average cost of R&D. *Id.* at 12. Some otherwise important drugs fail to be profitable because competitors' products eclipse them in the marketplace. Those few products that do return large profits necessarily subsidize the vast majority of those that do not.

These tremendous R&D outlays are essential to developing innovative new drugs. Not surprisingly, studies have demonstrated a clear link between the amount of money spent on pharmaceutical R&D and the discovery of new medicines. Elizabeth J. Jensen, *Research Expenditures and the Discovery of New Drugs*, 36 J. Indus. Econ. 83, 93 (Sept. 1987). In order to produce new medicines, pharmaceutical companies must invest tremendous capital in R&D, and hope against the odds to see a return on it in ten to twelve years. For this gamble to be even remotely reasonable, pharmaceutical companies depend on intellectual property protection. Patents create the incentive to invest money in R&D, which is essential for the development of new drugs.

The promise of the protection afforded by injunctive relief is essential to the patent incentive system. Pharmaceutical patents typically contain a single, easily identifiable compound. The costs of determining whether such a compound was previously patented are relatively low, making it easy for companies to avoid accidental infringement. Infringement, when it does occur, is relatively easy to demonstrate. Once infringement is shown, an injunction is nearly always the right remedy. Any other remedy in those circumstances would not be an effective deterrent for infringers. Lacking the high R&D costs to develop the drugs themselves, infringers can easily copy a successful drug, put it on the market for a fraction of the cost of the patent holder and still generate tremendous profits. An injunction appropriately serves to forestall such exploitation of the patent holder's property before it occurs. Moreover, a presumptive right to an injunction means that the patentee, when negotiating with would-be licensees, will receive the full value for the invention in return.

To undermine and weaken patent protection by sowing doubt on the availability of injunctive relief against confirmed infringers – as in the manner Petitioners advocate – will necessarily increase the costs of developing new medicines. Pharmaceutical companies employ sophisticated models to evaluate the risk and potential return of investment in R&D. Making the availability of injunctive relief less certain drives up the risk and so immediately dries up the pool of investments in R&D. Furthermore, changing the rule now devalues past investments made with the expectation that patent rights would be vindicated. *See* Rebecca S. Eisenberg, *The Shifting Functional Balance of Patents and Drug Regulation*, 20 Health Affairs 119, 120 (Sept./Oct. 2001) ("The long-standing availability of patent protection for drugs . . . has been a fixture in the expectations of firms during a period of tremendous growth in R&D spending.").

This is not just unfair; it would directly impact the number of new drugs brought to market. Pharmaceutical companies would be unable to raise as much money to invest in R&D, and the resulting decrease in R&D funding would translate directly into fewer new drugs. Frank R. Lichtenberg, *Probing the Link Between Gross Profitability and R&D Spending*, 20 Health Affairs 221; 222 (Sept./Oct. 2001) ("The [link between R&D and expected future profits] implies that policies that threaten to diminish future profits will reduce R&D investment today, even if they do not affect current profits."). Companies permitted to produce generic versions of the same drugs would receive a huge windfall. Eisenberg, *supra*, at 120 ("According to the pharmaceutical industry, their R&D costs average hundreds of millions of dollars per new product, while costs of developing generic imitations are lower by orders of magnitude.").

II. A PRESUMPTION IN FAVOR OF A PERMANENT INJUNCTION UPON A FINDING OF PATENT INFRINGEMENT IS CONSISTENT WITH LONGSTANDING PATENT PRINCIPLES.

Patent law has traditionally presumed that a patent holder who prevails on a claim of infringement of a valid patent is entitled to injunctive relief. "A patentee has the exclusive right to manufacture, use, and sell his invention. The heart of his legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (internal citations omitted). The general rule used by the Federal Circuit reflects this view of patents. "Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, . . . injunctive relief against an adjudged infringer is usually granted. . . . [A]n injunction should issue once infringement has been established unless there is a sufficient

reason for denying it." *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988); *see* 7 Donald S. Chisum, *Chisum on Patents* § 20.04[2] at 20-761 (2002) ("A patent owner prevailing on the merits of a patent infringement claim will usually be granted a permanent injunction against future infringement unless the public interest otherwise dictates."). This presumption does not reflect an unjust or unreasonable legal preference for patent holders. Rather, it reflects the fact that once a judge or jury has determined that a defendant is infringing a valid patent, strong protection of the patent holder's right to exclude is necessary to prevent the infringement from undermining the patent system.

Petitioners nevertheless argue that to the extent federal case law presumes a patent holder (whose patent a court has determined to be both valid and infringed) is entitled to injunctive relief, that case law contravenes congressional intent as expressed in 35 U.S.C. § 283, in which Congress left to the discretion of the courts the decision whether to grant injunctive relief to patent holders. That contention is mistaken.

When a statute calls for courts to exercise discretion based on particular factors, there is nothing improper about courts enunciating a presumption or other legal principle to guide the exercise of discretion. As this Court recently affirmed in *Martin v. Franklin Capital Corp.*, 126 S. Ct. 704 (2005), even where an issue is left to a court's discretion, exercise of that discretion must be guided by legal principles. "We have it on good authority that a motion to [a court's] discretion is a motion, not to its inclination, but to its judgment; and its judgment is to be guided by sound legal principles. . . . Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Id.* at 710

(internal quotation marks omitted, alteration in original). The Court in *Martin* enunciated a legal test governing discretionary awards of attorney's fees. It then recognized that "courts retain discretion to consider whether unusual circumstances warrant a departure from the rule in a given case." *Id.* at 711. But the Court cautioned that "[w]hen a court exercises its discretion in this manner, . . . its reasons for departing from the general rule should be" faithful to the purposes of the statute authorizing fee awards. *Id.*

In *Martin*, this Court expressly determined that Congress neither "meant to tilt the exercise of discretion in *favor* of fee awards," nor was there any "basis here for a strong bias *against* fee awards." 126 S. Ct at 710 (emphasis in original). Yet the Court went on to establish a general rule, placing limits on the district courts' discretion, based on "the large objectives of the relevant Act which embrace certain equitable considerations." *Id.* (citations and internal quotations omitted). Like the general rule at issue here, the general rule in *Martin* provided for a specific result "[a]bsent unusual circumstances." *Id.* at 711.

A. The Right to Exclude Is at the Heart of Patent Rights.

It has long been clear that a court exercising equitable discretion should not deny equitable relief where that remedy is essential to protecting core rights. *See Tennessee Valley Authority v. Hill*, 437 U.S. 153 (1978) (granting injunction forbidding completion of dam to protect core interest of federal statute). "In practical effect [such an action] would not be merely denial of an equitable remedy, but denial of a substantive right created by Congress." 1 Dan B. Dobbs, *Law of Remedies* § 2.4(7), at 120 (2d ed. 1993). "[T]he decision against discretion is completely in accord with the view that equity must not use discretion and balancing to deny substantive rights." *Id.* at 120.

Here, the decision about whether to grant an injunction must begin with the fact that a patent is a form of property. That means that its owner has a right to exclude others from using it. Professor Felix Cohen memorably described the nature of property as that "to which the following label can be attached: To the world: Keep off X unless you have my permission, which I may grant or withhold. Signed: Private citizen. Endorsed: The state." Felix S. Cohen, *Dialogue on Private Property*, 9 Rutgers L. Rev. 357, 374 (1954). This Court has consistently recognized that the right to exclude others is "universally held to be a fundamental element of the property right" and in fact constitutes one of "the most essential sticks in the bundle of rights that are commonly characterized as property." *Kaiser Aetna v. United States*, 444 U.S. 164, 176, 179 (1979); *see also Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 435 (1982) ("The power to exclude has traditionally been considered one of the most treasured strands in an owner's bundle of property rights."); *International News Service v. Associated Press*, 248 U.S. 215, 250 (1918) (Brandeis, J., dissenting) ("An essential element of individual property is the legal right to exclude others from enjoying it.").

The Court has not limited the right to exclude to tangible property, but has long and consistently affirmed the right to exclude in the context of intellectual property as well. *Special Equip. Co. v. Coe*, 324 U.S. 370, 378 (1945) ("The patent grant is not of a right to the patentee to use the invention, for that he already possesses. It is a grant of the right to exclude others from using it."); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908) ("From the character of the right of the patentee we may judge his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the

patentee."); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent.").

In fact, this Court has historically understood a patent grant in terms of the right to exclude. "[T]he [patent] grant is nothing more than a means of preventing others, except under license from the patentee, from appropriating his invention." *Special Equipment Co.*, 324 U.S. at 378. This is not surprising, given that the Constitution itself uses the language of exclusion with regard to patent rights: "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the *exclusive* Right to their . . . Discoveries." U.S. Const. art. I., § 8 (emphasis added); *see also Continental Paper Bag Co.*, 210 U.S. at 423 ("The patent law is the execution of a policy having its first expression in the Constitution. . . . It is worthy of note that all that has been deemed necessary for that purpose, through the experience of years, has been to provide for an exclusive right to inventors to make, use, and vend their inventions.").

Central to the right to exclude is the availability of injunctive relief to prevent infringers from using a patentee's property without consent. "A patentee has the exclusive right to manufacture, use, and sell his invention. . . . The heart of his legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent." *Zenith Radio Corp.*, 395 U.S. at 135 (internal citations omitted). "Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research." *Smith Int'l, Inc. v.*

Hughes Tool Co., 718 F.2d 1573, 1578 (Fed. Cir. 1983). The right to exclude, along with the right to invoke the state's power to enforce that right, represent the patentee's quid pro quo with the public at large. For her part, an inventor offers up a precise description of her discovery or invention. In return, the public agrees to protect the inventor's temporary right to exclude all others from non-consenting use of her discovery or invention. "The public yields nothing which it has not agreed to yield; it receives all which it has contracted to receive. The full benefit of the discovery, after its enjoyment by the discoverer for fourteen years, is preserved; *and for his exclusive enjoyment of it during that time the public faith is pledged.*" *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 242 (1832) (emphasis added). Injunctive relief against infringers is an essential aspect of the patentee's right to exclude others from her intellectual property.

B. Inadequacy of Legal Remedies.

No patent remedy other than an injunction offers adequate protection of the core right to exclude. As one early decision put the matter:

> Upon the pleadings now before the court *it cannot be said that a money judgment for damages alone will indemnify the complainant*, or that ultimately an injunction should not issue for his protection. If the contention of the defendant should become established law, inventors, in all similar cases, will receive a staggering blow. The 'exclusive right' granted by the patent will exclude no one. The door will be thrown wide open to wrong-doers. *The courts will be powerless to protect*, and the only remedy remaining to the patentee, if fortunate enough to discover the injury done him, will be a *suit at law for*

> *actual damages, which, in most cases, is no remedy at all.*

Brick v. Staten Island Ry. Co., 25 F. 553, 554-55 (C.C.S.D.N.Y. 1885) (emphasis added).

Compensation as an alternative to injunctive relief is inadequate as a response to continued infringement for several reasons. Primarily, a "forced sale" of patent rights does not, by its very nature, fully protect the patentee's right to decide whether and when to allow others to use a patented invention. In any event, leaving the determination of the appropriate amount of compensation to the courts is extremely problematic. As one court has explained:

> The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations – whether they end in a license or a particular royalty or in the exclusion of an infringer from the market – is much preferable to a judicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy.

In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993), *aff'd*, 71 F.3d 1573 (Fed. Cir. 1995).

That is why this Court has recognized that compulsory licenses are disfavored for patent infringement.

> If petitioners' argument were accepted, it would force patentees either to grant licenses or to forfeit their statutory protection against

> contributory infringement. Compulsory licensing is a rarity in our patent system. . . . Compulsory licensing of patents often has been proposed, but it has never been enacted on a broad scale.

Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 & n.21 (1980); *accord Ortho Pharm. Corp. v. Smith*, 15 U.S.P.Q.2d 1856, 1863 (E.D. Pa. 1990) ("A compulsory license, which may arise from a refusal to enjoin, is fundamentally at odds with the right of exclusion built into our patent system."); *see also* Robert P. Merges, *Of Property Rules, Coase and Intellectual Property*, 94 Colum. L. Rev. 2655, 2668 (1994) ("In general, [compulsory licenses] are available for patents only as a remedy for violation of the antitrust laws.")

In addition to being unwieldy, compulsory licenses for intellectual property rights inhibit the development of voluntary institutions that would more efficiently reduce transaction costs by allowing parties, rather than courts, to set prices. "[C]ompulsory licensing provisions may prevent the creation of technologies and organizational innovations that would efficiently administer the rights-clearance process. To the extent this is correct, one must be hesitant to endorse compulsory licensing." *Id.* at 2669 (footnote omitted). Once introduced, compulsory licensing schemes are difficult to remove after they have outlived their usefulness. Historically, most industries develop voluntary institutions, thereby obviating the need for government imposed compulsory licensing schemes. "[W]hen the legal system makes a reasoned decision to grant certain [intellectual property rights], courts should enforce these rights through injunctions (i.e., a property rule) and thereby encourage private transactions." *Id.* at 2663 & n.30.

Petitioners and supporting *amici* speculate that the right to exclude others by means of injunction allows a patent holder to charge more for use of his invention than the invention is worth. But their arguments ignore reality, as well as the deleterious consequences that would follow the rule they advocate. A patent holder who asks for more in return for use of his invention than it is worth in the marketplace usually will find no buyers. In contrast, Petitioners seek a rule that would place patent holders in a position where they cannot refuse a transaction with a willing buyer. Without the right to enjoin use of his patent, the patent holder is forced to sell use of his invention to whomever wants to buy it at a price set by the buyer (if there is no protection) or a court (if a there is a compulsory license). This almost guarantees that the buyer will be able to purchase use of the invention for less than its true value to that buyer. *Cf.* 2 Paul Goldstein, Goldstein on Copyright § 13.0, at 13:3 (3d ed. 2005) ("[A]lthough coercive relief will sometimes overcompensate the copyright owner, monetary relief alone will often undercompensate it.").

C. Hardship to an Infringer Rarely Warrants Consideration.

Although hardship to the defendant may be weighed in equity cases generally, courts properly give little if any consideration to hardship suffered by a patent infringer in deciding whether to enjoin future infringements. To the extent that the infringer's hardship results from his obligation to stop infringing upon the patent holder's right, the balance of hardships clearly weighs in the patent holder's favor. The Federal Circuit merely stated the obvious when it announced that "[o]ne who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so

elected." *Windsurfing Int'l, Inc. v. AMF Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986).

In fact, in this case, the infringer represents that it could design around the claimed invention. That is a factor favoring the grant of an injunction, not pointing the other way. If eBay can design around the injunction, then the injunction will not harm eBay to any appreciable extent. Furthermore, the incentive to design around to avoid the injunctive power of a patent leads to the creation of new technology and is one of the recognized benefits of the patent system. *See State Industries, Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985) ("One of the benefits of a patent system is its so-called 'negative incentive' to 'design around' a competitor's products, even when they are patented, thus bringing a steady flow of innovations to the marketplace.").

Consideration of an infringer's hardship is required in only exceptional circumstances. "Hardship to the defendant is perhaps best considered in the balance when the hardship to the defendant is not an inseparable part of the plaintiff's right, or when the cost or hardship to the defendant far exceeds the benefit to which the plaintiff is entitled, or when hardship to the defendant suggests that the plaintiff's right was unfairly acquired in the first place." 1 Dobbs Law of Remedies § 2.4(5), at 111. None of these considerations comes into play in the vast majority of situations in which a court is deciding whether to enjoin ongoing patent infringement as part of its final judgment.[3]

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[3] Whether or not there should be a "*de minimis*" exception to patent infringement, as suggested by *amicus curiae* Teva Pharmaceuticals USA, Inc. ("Teva"), is irrelevant to the matter now before the Court. Without question, eBay's infringement is clearly not *de minimis*. In any event, Teva's arguments about a "*de minimis*" exception in the context of

D. The Public Interest Generally Favors Protection of Patent Rights.

Congress designed the patent system to serve the public interest by promoting progress and to navigating "[t]he tension between the desire to freely exploit the full potential of our inventive resources and the need to create an incentive to deploy those resources." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989). Allowing alleged but unproven infringement to continue may be justified on the ground that the alleged infringer has not yet had his day in court. But after a jury has returned a verdict against an infringer, continued infringement harms not just the patent holder but actively undermines the entire patent system. The public interest suffers where proven infringers are permitted to violate valid patents and inventors have less incentive to innovate. To the extent an inventor continues to develop new ideas and technologies, she will prefer to maintain control over them by keeping them secret instead of revealing them through the patent system. Allowing a patent infringer to avoid an injunction does nothing more than benefit the infringer personally while imposing unwanted costs on the general public.

In determining whether or not to grant a permanent injunction, courts will look to the effect of that relief on the public interest. In most cases, this factor points in favor of an injunction. "Generally, it may be said protecting patents from would-be infringers is always acting in the public interest." *Pittway Corp. v. Black & Decker*, 667 F. Supp. 585, 593 (N.D. Ill. 1987). Courts have likewise concluded the public interest is best served by protecting pharmaceutical

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inquiries into patent validity and infringement do not alter the traditional consideration of the appropriate remedies once infringement has been proven.

patent rights and thereby insuring strong incentives for future R&D investment. "It is in the public interest to protect the pharmaceutical industry's investment into the discovery of new drugs." *Ortho Pharm. Corp.*, 15 U.S.P.Q.2d at 1864. This is true even where other companies offer cheaper, but infringing, versions of the same drug. "Although companies such as Premo, which do not engage in significant amounts of research and development, consequently might be able to undercut the prices offered by pharmaceutical manufacturers that devote large sums to invention and product improvement, this type of short-term competition does not, at least in the considered opinion of the Congress, serve the public interest. Instead, Congress has determined that it is better for the nation in the long-run to afford the inventors of novel, useful, and non-obvious products short-term monopolies on such products than it is to permit free competition in such goods." *Eli Lilly & Co. v. Premo Pharm. Labs. Inc.*, 630 F.2d 120, 138 (3d Cir. 1980); *see also Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 222 U.S.P.Q. 143, 149 (D. Kan. 1983) ("The American public is not served by favoring the short-run effects of competition in the marketplace over the long-run effects of decreased incentives for competition under the patent laws.").

The public interest can, in the appropriate case, override the other factors and warrant denial of an injunction. But these circumstances are rare. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) ("Accordingly, courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest."); *Hybritech, Inc. v. Abbott Lab.*, 4 U.S.P.Q.2d 1001, 1015 (C.D. Cal. 1987) (granting a preliminary injunction for all but two of the infringed medical devices and denying the injunction only where granting it would cut off the public from *any*, rather than merely cheaper, access to equivalent products.), *aff'd*, 849 F.2d 1446 (Fed. Cir. 1988).

E. Whether a Patentee Is Practicing the Invention Is Not a Relevant Consideration.

In determining whether injunctive relief is appropriate to deter future patent infringement, the use a patent holder makes of his patent is irrelevant. "This Court has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent." *Special Equipment Co.*, 324 U.S. at 378-79. There are a number of reasons for this. Most significantly, the creation of a "use it or lose it" rule for patents would radically alter the patent scheme created by Congress. At one point, Congress did choose to condition the grant of a patent to aliens upon their utilization of their invention, but subsequently repealed that condition. *Id.* at 378. Since then, "Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if the patent is not used within a specified time, but it has not done so." *Id.* at 379 (footnotes omitted). When Congress demonstrates it could impose a condition and then elects not to do so, courts should be especially reluctant to impose that same condition themselves. *See also Continental Paper Bag Co.*, 210 U.S. at 429-30 ("In some foreign countries the right granted to an inventor is affected by nonuse. This policy, we must assume, Congress has not been ignorant of nor of its effects. It has, nevertheless, selected another policy; it has continued that policy through many years. We may assume that experience has demonstrated its wisdom and beneficial effect upon the arts and sciences.").

The patent scheme adopted by Congress creates a quid pro quo between the inventor and society. In exchange for knowledge of an invention (which an inventor might otherwise keep for himself), the inventor is given the right to

exclude others from use of that invention. As this Court observed over 100 years ago:

> The inventor is one who has discovered something of value. It is his absolute property. He may withhold the knowledge of it from the public, and he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention. He does not make the law. He does not determine the measure of his rights. The legislative body, representing the people, has declared what the public will give for the free use of that invention.

United States v. American Bell Tel. Co., 167 U.S. 224, 250 (1897). The inventor's obligation to the public ends when he makes known his invention and the advances it represents by means of his patent application. He is not "under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible." *Id.* The patent scheme created has achieved its goal and received the benefit of its bargain, namely the public dissemination of a useful innovation, the moment the inventor files for a patent. *See also Motion Picture Patents Co. v. Universal Film Mfs*, 243 U.S. 502, 513 (1917) ("[Exclusive use of his discovery] is all that the statute provides shall be given to [the inventor] and it is all that he should receive, for it is the fair as well as the statutory measure of his reward for his contribution to the public stock of knowledge.").

This same reasoning helps to dispel the allure of the stock argument against allowing patent holders to protect their rights even when they choose not to actively use them. This objection was raised by Justice Douglas in his dissent from the majority opinion in *Special Equipment*. "Take the

case of an invention or discovery which unlocks the doors of science and reveals the secrets of a dread disease. Is it possible that a patentee could be permitted to suppress that invention for seventeen years . . . and withhold from humanity the benefits of the cure?" *Special Equipment Co.*, 324 U.S. at 383 (Douglas, J., dissenting). That scenario is unlikely precisely because the patent system requires that an invention be publicly disclosed, thus allowing the marketplace to work. Moreover, the scenario is essentially nonsensical. If an inventor created a drug to eliminate a disease, and truly wanted to keep humanity from its benefits, he could do so for far longer than seventeen years. He need only destroy his notes and tell no one of his discovery. If his goal is to deny the public the benefit of his finding, he would chose not to apply for patent protection in the first place.

The quid pro quo between inventor and the public remains at the heart of the patent system: in return for a grant of temporary monopoly over her discovery, society receives from an inventor knowledge of her innovation. Not just knowledge that the invention exists, but detailed information sufficient to allow others to re-create it. The knowledge is disseminated widely when the patent application is published (normally within 18 months of its filing). Society is not owed the product that may or may not be derivable from the patent in exchange for 20 years of exclusivity; it is owed – and, through the patent process, has already received – knowledge of the innovation. The only thing temporarily prohibited others is use of the invention absent the inventor's consent. Other benefits, derived from the publication and dissemination of such knowledge, exist independently of any specific product or use of that knowledge. Society benefits when that knowledge is shared, and suffers when it remains hidden. Absent the patent system, and to the extent existing patent protections are weakened or made less certain, less invention would occur and more of what did would remain

hidden. "[I]n a world without patents, such inventive activity as did occur would be heavily biased toward inventions that could be kept secret." Richard A. Posner, *Economic Analysis of Law* § 3.3, at 43 (5th ed. 1998). Justice Douglas had it backwards: his frightening scenario becomes more, not less, likely where the rights of patent holders are weakened.

In *Continental Bag*, this Court reiterated the view that non-use of a patent does not in any way diminish a patent holder's rights. The ability to call upon the state to enforce the right to exclude others from the patent holder's intellectual property (that is, the right to enjoin future infringement) constitutes the very core of those rights. Limiting the availability of injunctive relief against confirmed infringers necessarily and dramatically diminishes them. This Court should not now disturb the principles reaffirmed in *Continental Bag* that have for so long and with such success contributed to the progress of science.

III. PATENT LAW DOES NOT REQUIRE GENERAL REFORMATION.

Patent law has successfully balanced the interest of inventors with the public interest for over 100 years. It should not be modified without careful consideration, especially where such modifications are tailored to benefit a small if vocal class of patent infringers. Petitioners are seeking not a restoration of patent law after an alteration below, but are instead attempting to force a radical change on the long-settled law of permanent injunctive relief in patent cases. While a long history is no guarantee of correctness, this Court should not lightly rework existing law, especially where that law reflects a balance between competing interests struck by Congress. In addition, numerous businesses and even entire industries have developed in reliance upon patent law as it currently stands. Casually altering those

fundamental assumptions will have a far-reaching impact beyond that intended by Petitioners and supporting *amici*.

The existing patent system provides incentives which all agree have effectively stimulated innovation. Yet even assuming *arguendo* that its implementation is not always perfect, any attempt to reform the patent system should protect those aspects that do effectively promote innovation. Petitioners would substantially diminish the essential nature of the patent grant (the right to exclude), by substantially diminishing the likelihood that the courts will enforce that grant. Making the availability of injunctive relief less certain would discourage investment in new innovation, and dilute the effectiveness of the whole system. The rights of all patent holders would be weakened, and the constitutional and congressional purpose of the system would be undermined.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be affirmed.

Respectfully submitted,

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eBay Inc.,et al.
Petitioners,
v.
MercExchange, L.L.C
Respondent,

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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Interest of the *Amici Curiae*

Amici curiae are legal scholars specializing in patent law, constitutional law, and related subjects. None of *amici* have any financial interest in the outcome of this litigation.[1] *Amici* provide their institutional affiliations for identification purposes only; they do not purport to represent the opinions or interests of their respective institutions. *Amici*'s sole interest in this case is to encourage the proper unfolding of law in their areas of specialty.

Authority to File

Both parties have given permission for Pollack to file this *amicus* submission. Copies of blanket permission letters have been filed with the Clerk.

Summary of Argument

This Court should recognize that a patentee's failure to practice an infringed invention is relevant to the availability of injunctive relief, despite contrary language in Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 205 (1908). The Patent Clause of the United States Constitution gives Congress the power to enact only such patent statutes as promote the distribution of useful technology. This constitutionally set goal informs the meaning of the public interest factor in the standard equitable test for injunctive relief. While injunctions require case by

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1. No party has authored this brief in whole or in part. The printing of this *amicus* filing was paid for by Malla Pollack with the generous support of the University of Idaho, College of Law.

case analysis, courts should presume that equitable relief is unwarranted if a patentee is neither practicing the infringed invention nor making a good-faith effort to prepare to practice the invention.

Argument

I. The Patent Clause of the United States Constitution Aims at the Distribution of New Technology

The United States Constitution provides Congress with the power "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. Art. I, sec. 8, cl. 8 (hereinafter the "Patent Clause," or "the Clause"). The Clause is both a grant of power to enact copyright and patent statutes, and a limit on the statutory schemes allowable. *See* Graham v. John Deere Co., 383 U.S. 1, 5 (1966).

The Clause's intended beneficiary is the public. *See* Motion Picture Patents Co. v. Univ. Film Mfg. Co., 243 U.S. 502, 511 (1917) ("It is undeniably true that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly."). *See also Graham*, 383 U.S. at 6 (explaining that patent grant cannot be expanded "without regard to the innovation, advancement or social benefit gained thereby.").

The question raised in this case is the public benefit the patentee should provide during the term of the patent.

A. "Progress" Means "Distribution"

This Court has never separately defined the word 'progress' in the Clause. However, the Court has recognized that the defining characteristic of a patent is its allowing the "general circulation" of an item necessary to profit from the item's commercialization while restricting competition through reverse engineering. *See* Bonito Boats v. Thunder Craft Boats, 489 U.S. 141, 157-68 (1989) (explaining bounds of preemption by patent law). Repeated dicta, furthermore, recognize the Clause's purposes as including public distribution of copyrightable works and patentable technology. *See, e.g.,* Eldred v. Ashcroft, 537 U.S. 186, 206 (2003) ("The CTEA may also provide greater incentive for American and other authors to create and disseminate their work in the United States;" referring to the Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298); *Eldred,* 537 U.S. at 206-07 (Congress "rationally credited projections that longer terms would encourage copyright holders to invest in the restoration and public distribution of their works."); *id.* at 219 ("[C]opyright supplies the economic incentive to create and disseminate ideas.") (quoting Harper & Row v. Nation, 471 U.S. 539, 558 (1985)).

Statements explaining the Clause only in terms of encouraging the qualitative advancement of knowledge and technology were made without empirical support, and on the unrecognized, incorrect assumption that the most common mid-nineteenth century use of 'progress' was identical to the word's meaning in the 1787 Constitution. As to patent, furthermore, the qualitative advancement of useful arts is required by the words "inventors" and "discoveries," which limit patentability to variations not obvious to a person of

ordinary skill in the relevant art. *See* Graham, 383 U.S. at 11 (reiterating that no patent may be granted when "the improvement is the work of the skillful mechanic, not that of the inventor.") (internal quotation marks and citation omitted). "Progress" in the Clause has a disparate function. *See* Wright v. U.S., 302 U.S. 583, 588 (1938) ("In expounding the Constitution . . . every word must have its due force, and appropriate meaning; for it is evident from the whole instrument, that no word was unnecessarily used, or needlessly added.") (internal quotation marks and citation omitted).

Recent empirical research demonstrates that, in the United States of the ratifying era, the general public would have read the Clause to give Congress the power to promote the *spread* or *distribution* of knowledge and new technology by creating limited statutory incentives for writings and inventions. *See* Malla Pollack, *What is Congress Supposed to Promote?: Defining 'Progress" in Article I, Section 8, Clause 8 of the U.S. Constitution, or Introducing the Progress Clause*, 80 Nebraska L. Rev. 754, 809 (2001) (hereinafter "*Progress*").

While this Court has an eclectic approach to constitutional interpretation, original public meaning is a foundational component.[2] *See, e.g.*, Alden v. Maine, 527

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2. Using modern public meaning in the Clause, furthermore, would undermine long-standing case law and statute allowing the "writings" of "authors" to include music, sculpture, and paintings. *See Progress*, *supra*, at 780.

U.S. 706, 758 (1999) ("We seek to discover [in reading the Constitution], however, only what the Framers and those who ratified the Constitution sought to accomplish....").

Ratification era and related political documents are not helpful in defining 'progress'.[3] Dictionaries of the era include multiple definitions (with physical movement predominating). More importantly, these dictionaries were not based on any empirical investigation of public word use. Editors compiled dictionaries by borrowing from earlier lexicons and supplementing with ideosyncraticly chosen quotations from the literati. Dictionaries largely reflected upper class writing habits.[4] Dictionaries, therefore, may be helpful rapid reference tools, but cannot be the final word on eighteenth century definitions. The upper class slant of these dictionaries is especially troubling. The meaning of the Constitution is its meaning to the generality of the public, not to the elite. *See, e.g.*, Ogden v. Sanders, 25 U.S. (12 Wheat.) 213, 332 (1827) (Marshall, C.J.) (listing as an axiom of constitutional interpretation "that its words are to be understood in that sense in which they are generally used by those for whom the instrument was intended."); Joseph Story, Commentaries on the Constitution of the United States 332 (3d ed. 1858) (explaining that constitutions "are instruments of a practical nature . . . designed for common use, and fitted for common understandings. The people make them; the people adopt them, the people must be supposed to read them

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3. *See Progress, supra,* at 782-87.

4. *See id.* at 794-97.

. . . .").

To determine word usage by the generality of eighteenth century Americans, one should investigate what ordinary people read – primarily (often solely) the Bible and newspapers.[5] The King James Version of the Bible does not use the word 'progress',[6] but the Pennsylvania Gazette includes 575 occurrences.[7] The most common Gazette

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5. *See* Forrest McDonald & Ellen Shapiro McDonald, Requiem: Variations on Eighteenth Century Themes 9 (1988); *see also, e.g.*, David D. Hall, *The Uses of Literacy in New England, 1600-1850, in* Printing and Society in Early America 1, 1 (eds. William L. Joyce, et al., Am. Antiquarian Soc'y 1983) (importance of religious works, especially the Bible); *id.* at 12, 21-22 (explaining that Bible and other devotional works were routinely read aloud and customarily memorized, even by the illiterate); Donald S. Lutz, *Connecticut, in* Ratifying the Constitution 117, 127-30 (eds. Michael Allen Gillespie & Michael Lienesch 1989) (mentioning importance of newspaper reading); Robert Allan Rutland, The Ordeal of the Constitution 24 (1983) (same).

6. *See* http://www.av1611.org/kjv (providing a computer searchable file of the King James Bible); <http://www.gospelcom.net/> (same). The 1611 King James Version was the standard American Bible during the ratification era. *See* Thurston Greene, The Language of the Constitution xviii (1991).

7. My search included all issues through the end of the

meaning of 'progress' is physical movement, spread, distribution.[8] 'Fire' is the one word must commonly employed in the phrase "the progress of ___".[9] Eighteenth century Americans also spoke of the progress of armed men (including invading troops), ravenous insects, bad weather, and grave illnesses.[10] These everyday linkages demonstrate

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eighteenth century, using the full text searchable database available through Accessible Archives, Inc. <http://www.accessible.com/default.htm>; *see Progress, supra*, at 798-803.

8. *See Progress, supra,* at 798. "Distribution" is also the eighteenth century meaning which makes most sense both of the full Clause and of the political context. *See id.* at 788-94. For example, if 'progress' meant "quality improvement," the Federalists risked alienating possible supporters of the proposed constitution. In the eighteenth century, "science" included moral philosophy. *See id.* at 791 n.178 (providing multiple sources). Giving Congress the power to promote the quality improvement of moral philosophy would imply that mankind could improve on the Gospels. Not only would that be bad politics, but Anti-Federalists did not make this argument – strongly suggesting that the ratifying era public did not read 'progress' in Art. I, sec. 8, cl. 8 to mean "quality improvement."

9. *See* Progress, *supra*, at 799 (reporting 51 usages).

10. *See id.*

that the word 'progress' was limited neither to desirable outcomes[11] nor to movement along a two-dimensional line.

Research on other material widely read during the

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11. "Chronological ordering" was a slightly less common ratification-era meaning of 'progress', *see Progress, supra,* at 798 & n.216, but it did not imply quality improvement. For example, Shakespeare's famous lines on the seven stages of man, ending not with improvement, but with "second childishness and mere oblivion, [s]ans teeth, sans eyes, sans taste, sans every thing," William Shakespeare, *As You Like It,* Act II, Scene V, ll. 147-75, is entitled "The Progress of Life" in several very common ratification era school books. *See* 1 Robert Dodsley, The Preceptor: Containing a General Course of Education. Wherein the First Principles of Polite Learning are Laid Down in a Way Most Suitable for Trying the Genius, and Advancing the Instruction of Youth 62 (3d ed. London 1758; University Microfilms Int'l, American Culture Series Reel 397.1); William Enfield, The Speaker, or Miscellaneous Pieces xxii, 208 (Baltimore, Md 1803; No. 4163, 2d Ser., Early Am. Reprints, microfiche); John Hamilton Moore, The Young Gentlemen and Lady's Monitor, and English Teacher's Assistant 356 (10th ed., Hartford, Conn., 1801; No. 950, 2d Ser., Early Am. Imprints; microfiche). These textbooks are recognized as strong competitors by Noah Webster. *See* Noah Webster, An American Selection of Lessons in Reading and Speaking at unnumbered prefatory page (Arno Press 1974 reprint of 5th ed. 1789).

ratification era supports this conclusion.[12] For example, one of the few best-sellers in early America was John Bunyan's The Pilgrim's Progress (1678).[13] This famous 'progress' is an allegorical journey, as per the full title: "The Pilgrim's Progress From This World To That Which Is To Come, Delivered Under A Similitude Of A Dream: Wherein Is Discovered The Manner Of His Setting Out, His Dangerous Journey, and Safe Arrival At The Desired Country (1678). Christian, Bunyan's hero, does not arrive at "The Desired Country" because his qualitative moral improvement earns

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12. *See Progress*, 754-815.

13. *See* Frank Luther Mott, Golden Multitudes: The Story of Best Sellers in the United States 19-20 (1947). The Gazette includes twelve booksellers' advertisements expressly listing The Pilgrim's Progress. *See* Accessible Archive Items Numbered 06302 (1744), 06382 (1744), 5272 (1742), 04907 (1742), 04850 (1741), 04533 (1741), 36763 (1765), 35749 (1765), 34048 (1764), 19071 (1755), 10647 (1749), and 27581 (1761). Many other sources confirm the extraordinary popularity of Bunyan's allegory during the ratification era. See, e.g., Benjamin Franklin, The Autobiography of Benjamin Franklin, Poor Richard's Almanac, and Other Papers 13 (ed. A.L. Burt, New York, n.d.); W. Grinton Berry, *editor's preface, to* Foxe's Book of Martyrs v, v (Baker Book House, Michigan 13th printing 1990); Mark A. Noll, Protestants In America 34 (Oxford Univ. Press 2000).

entry to heaven; his salvation is due solely to grace.[14] The standard New England hymnal, The Bay Psalm Book, contains only one mention of 'progress', referring to a divine journey.[15] John Milton's *Paradise Lost* also uses the word 'progress' only once, also invoking a journey: God's chariot proceeds "[i]n progress through the [road] of Heav'n Starr-

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14. *See, e.g.*, Jonathan Edwards, *Sinners in the Hands of an Angry God*, (sermon delivered July 8, 1741, Enfield, Conn.), available at <http://www.leaderu.com/cyber/books/edwards/sinners.html> (explaining doctrine of salvation by grace alone).

15. [l.24] They have thy goings seen o God
Thy goings in progresse;
Ev'n of my God my King within
Place of his holynesse.
[l25] Singers went first, musicians then,
In midst maids with Timbrel.
The Bay Psalm Book at unnumbered pages headed "PSA lx viii" (Univ. of Chicago Press, n.d., facsimile of 1640 ed.). Unfortunately, other then-popular collections of religious songs have no occurrences of 'progress'. *See* Richard Allen, A Collection of Hymns & Spiritual Songs from Various Authors (Philadelphia 1801; microfiche; no. 38, 2d Ser., Early Am. Imprints); Elhanan Winchester, The Universalist's Hymn Book (London 1994; microform; Univ. Microfilms Int'l, reel 17 no. 27 in Early Baptist Publications). Nor does the word appear in any of the 700 psalms by Isaac Watts available on line at <http://www.ccel.org/w/watts/psalmshymns>.

pav'd."[16]

The central importance of distribution conflicts neither with incentivising new inventions and new writings, nor with qualitatively improving mankind's lot. As per contemporary economic research, "most of income above subsistence is made possible by international diffusion of knowledge." Peter J. Klenow & Adrés Rodrigquez-Clare, *Externalities and Growth*, National Bureau of Economic Research Working Paper 11009 (Dec. 2004), *available at* <http://www.nber.org/papers/w1109>.

Regarding patent, the qualitative advancement of useful arts is required by the words "inventors" and "discoveries," which limit patentability to changes not obvious to a person of ordinary skill in the relevant art. *See Graham*, 383 U.S. at 5-12.

Regarding copyright, the early Enlightenment's tool for qualitative advance is the distribution of learning. If, and only if, society provides all humans with knowledge and education, then all humans will have the capacity to develop, therefore, humanity as a whole (and humanity's shared knowledge base) will improve as if by some natural process. *See* Condorcet, Sketch for a Historical Picture of the Progress of the Human Mind 33, 38, 42, 73-76, 92-93, 99-106, 117-20, 136-40, 164, 171, 173, 182-84, 186-88 (June Barraclough trans., Noonday Press, New York, n.d.); Turgot, *On*

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16. John Milton, *Paradise Lost, in* John Milton, The Poetical Works of John Milton 1, 98 (ed. Helen Darbishire, Oxford Univ. Press 1961 reprint of 1958 ed.) (Book IV, l. 976).

Universal History, in Turgot On Progress, Sociology and Economics 61, 116-18 (Ronald L. Meek trans. & ed., Cambridge Univ. Press 1973); *accord* John Adams, *Thoughts on Government: Applicable to the Present State of the American Colonies, in* 4 John Adams, The Works of John Adams, Second President of the United States With A Life of the Author 189, 199 (ed. Charles Francis Adams, 1851) ("Laws for the liberal education of youth, especially of the lower class of people, are so extremely wise and useful, that to a humane and generous mind, no expense for this purpose would be thought extravagant."); A Gentleman from Rhode Island, Letter of June 7, 1787, *reprinted in* Penn. Gazette, June 20, 1787 ("Nothing but the general diffusion of knowledge will ever lead us to adopt or support proper forms of government. . . . Nor does learning benefit government alone; agriculture, the basis of our national wealth and manufactories, owe all their modern improvements to it."); James Madison, Letter from James Madison to W.T. Berry (Aug. 4, 1822), *in* James Madison, The Complete Madison 337 (Saul K. Padover ed., 1953) ("Knowledge will forever govern ignorance"; "A popular government without popular information or the means of acquiring it is but a prologue to a farce or a tragedy, or perhaps both."); Noah Webster, *An Examination into the Leading Principles of the Federal Constitution, by a Citizen of America, in* Pamphlets on the Constitution of the United States Published During Its Discussion by the People 1787-1788, at 25, 66 (Paul Leicester Ford ed., 1888, Da Capo Press reprint ed. 1968) ("[L]iberty stands on the immovable basis of a general . . . diffusion of knowledge."); *see also* Gordon S. Wood, The Creation of the American Republic 1776-1787, at 72, 120,

426, 570 (1998 paperback ed.) (discussing importance of general education to ratifying generation). Similarly, many ratifying-era state constitutions encourage public education. *See* Ga. Const. (1777) Art. LIV; Mass. Const. (1780) ch. V, § II; N.C. Const. (1776) LXI; N.H. Const. (1784); Pa. Const. (1776) § 22.

In sum, 'progress' in the Clause means "distribution."

B. The Quid Pro Quo for a Patent Includes Availability of the New Technology to the Public

The clear language of the Constitution sets the inventor's minimum payment to the public at the distribution of the technology itself. Starting with the first patent act, Congress has also required inventors to disclose information about their discoveries,[17] but this additional requirement does not negate the constitutional importance of distributing the technology itself.

The parallel structure of the Clause makes distribution of "useful arts" the aim of patent law (exclusive rights for inventors of discoveries); the distribution of "science" is the aim of copyright law (exclusive rights for authors of writings). *Accord Graham*, 383 U.S. at 5-6 (United States

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17. *See* 35 U.S.C. § 112, ¶ 1 (1952 Patent Act & current statute; requiring an enabling written description in the application); Patent Act of 1836 §§ 6, 7, 5 stat. 117 (requiring written description in application); Patent Act of 1793 § 3, 1 Stat. 318 (requiring written description in application); Patent Act of 1790, 1 Stat. 109 (requiring written description to be filed as soon as patent granted).

"patent system . . . by constitutional command must 'promote the Progress of . . . useful Arts.'").

The eighteenth century meaning of 'useful arts' is technology. *See* Robert I. Coulter, *The Field of Statutory Useful Arts, Part II*, 34 J. Of Pat. Off. Soc'y 487, 495-96 (1952); Robert A. Kreiss, *Patent Protection for Computer Programs and Mathematical Algorithms*, 29 N.M. L. Rev. 31, 62, 64-66 (1998); Malla Pollack, *The Multiple Unconstitutionality of Business Method Patents*, 28 Rutgers Computer & Tech. L.J. 61, 86-87 (2002); John R. Thomas, The Post-Industrial Patent System, 10 Fordham Intel. Prop. Media & Ent. L.J. 3, 32-37 (1999). Noah Webster's discussion of 'art' is instructive:

> 1. The disposition or modification of things by human skill, to answer the purpose intended. In this sense art stands opposed to nature. Bacon. Encyc.
>
> 2. A system of rules, serving to facilitate the performance of certain actions; opposed to science or speculative principles; as the art of building or engraving. Arts are divided into useful or mechanic, and liberal or polite. The mechanic arts are those in which the hands and body are more concerned than the mind; as in making clothes and utensils. These arts are called trades. The liberal or polite arts are those in which the mind or imagination is chiefly concerned; as poetry, music and painting.

Noah Webster, American Dictionary of the English Language, at unnumbered page headed "ARR-ARS-ART" (Foundation for Am. Christian Educ. photo. reprint, 1998)(1828).

The eighteenth century meaning of 'science' is

knowledge in general. *See* S. Rept. No. 82-1979, 82nd Cong., 2d Sess. 3 (1952); *see also* Webster, *supra*, at unnumbered page headed "SCI-SCI-SLA" ("SCIENCE, n. . . . (1) In a *general sense* . . . . knowledge . . . (2) In *philosophy*, a collection of the general principles or leading truths relating to any subject. . . (3) Art derived from precepts or built on principles . . . (4) Any art or species of knowledge . . . (5) One of the seven liberal branches of knowledge, viz grammar, logic, rhetoric, arithmetic, geometry, astronomy and music").

The Clause, therefore, allows only patent statutes which encourage distribution of technology and only copyright statutes which incentivise dissemination of knowledge.

The Patent Clause is a bargain between the public and the inventor. *See, e.g., Eldred*, 537 U.S. at 216-17; *Bonito Boats*, 489 U.S. at 150 ("a carefully crafted bargain"). *Continental Paper Bag* incorrectly lowers the inventor's required consideration to merely the information included in the patent application. *Continental*'s sole support for this assertion is one case which mentions disclosure in passing. *See Continental Paper Bag*, 210 U.S. at 424 (citing U.S. v. Am. Bell Telegraph Co., 167 U.S. 239, n.p. (1897)). The statement in *American Bell* is dicta; *Continental* was the first Supreme Court case adjudicating the relationship between practicing an invention and the availability of injunctive relief. *See Continental*, 210 U.S. at 425.

American Bell was "a suit by the United States to set aside a patent for an invention as wrongfully issued." *Am. Bell,* 167 U.S. at 237. The language on which *Continental* relies does not purport to decide a dispute over what

consideration the patentee must give the public in return for obtaining a patent. In drawing a distinction between the more potent property conveyed by a government issued patent in land and the less potent property right conveyed by a government issued patent in an invention, *American Bell* recognized that an inventor may keep his discovery secret without legal penalty. "After his invention [the inventor] could have kept his discovery secret to himself. He need not have disclosed it to any one. But in order to induce him to make that invention public, to give all a share in the benefits resulting from such an invention, [C]ongress by its legislation made in pursuance of the [C]onstitution, has" allowed issuance of patents on inventions. *Am. Bell*, 167 U.S. at 239. More recent cases also recognize that "immediate disclosure" of the invention "is exacted from the patentee" as a "price paid for the exclusivity secured" by the patent. *Eldred*, 537 U.S. at 216 (citations omitted). None, however, have rethought *Continental*'s conclusion that disclosure is the only required consideration.[18]

The clear language of the Constitution sets the inventor's minimum payment to the public at the distribution of the technology itself. The dicta relied upon in *Continental* is insufficient to modify the constitutional bargain.

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18. Justice Douglas did call for the abandonment of *Continental* in a case considering a patent grant, as opposed to an injunction in a patent infringement suit. *See* Special Equipment Co. v. Coe, 324 U.S. 370, 382-83 (1945) (Douglas, dissenting).

II. The Patent Clause Informs the Equitable Test for Injunctive Relief

Congress allows injunctions in patent cases, but has not ordered the courts to displace the general standard for injunctive relief. *See* 35 U.S.C. § 283. Injunctions generally are available only when the requester fulfills a multi- part test. *See, e.g.,* Weinberger v. Romero-Barcelo, 456 U.S. 305, 312 (1982) (reversing appellate court's grant of injunction denied by district court). "In exercising their sound discretion [regarding injunctive relief], courts of equity should pay particular regard for the public consequences." *Id.* *Continental* fails to "pay particular regard for the public consequences." *Weinberger*, 456 U.S. at 312.

The United States Constitution defines the public interest goal of patent statutes as the distribution of new technology. A patentee who does not practice his or her invention within the United States is undermining the public interest which founds legal recognition of personal patent rights. Therefore, a patent holder who is neither practicing the infringed invention nor making a good-faith effort to prepare to practice the invention should be presumed to fail the public interest prong. Promotion of the progress of useful arts is "the standard expressed in the Constitution and it may not be ignored." *Graham*, 293 U.S. at 6.

Courts should presume that injunctions are unavailable to patent holders who are neither practicing their infringed inventions nor making good-faith efforts to prepare to practice their inventions. *Continental*'s broad language undermines the Constitution's patent bargain.

III. *Continental* Provided Insufficient Basis for Its Disarticulation of Injunctive Relief from the Patent Holder's Practicing the Invention

The scanty discussion of the Clause during ratification does not include any explication of the quid pro quo required from inventors for patent grants. However, the background British patent regime "was the practice of giving some form of limited-term monopoly privilege to engage in a new trade or craft, sometimes denominated an industry, to the person or persons responsible for introducing it [the trade or craft] into the state." *See* Edward C. Walterscheid, *The Nature of the Intellectual Property Clause, A Study in Historical Perspective (Part I)*, 83 J. Pat. & Tmk. Off. Soc'y 763, 777 (2001). The patentee's quid pro quo was introduction of the new technology or product to the public of Great Britain. For that reason, in the early eighteenth century, an invention was novel enough to be patentable if it had not been practiced in Great Britain recently. Ancient (but discontinued) practice or others' knowledge of the technology was insufficient to negate patentability until later in the century. *See* Edward C. Walterscheid, *The Early Evolution of the United States Patent Law: Antecedents (Part 3 Continued)*, 77 J. Pat. & Tmk. Off. Soc'y 847, 848-49 (1995). This shift did not limit the patentee's quid pro quo to disclosure; it merely constricted the number of patents courts were willing to enforce. *See* Edward C. Walterscheid, *The Early Evolution of the United States Patent Law: Antecedents (Part 4)*, 78 J. Pat. & Tmk. Off. Soc'y 77, 102 (1996) (remarking on hostility of British courts to patents during the late eighteenth century). Similarly, in the late eighteenth century, British courts began insisting that patents were invalid unless their

paperwork explained the invention clearly enough to teach others how to practice the invention. *See id.* at 105-06. However, insisting on disclosure does not negate the requirement of practicing the invention. Disclosure is an additional payment, not a substitute. *See* E. Wyndham Hulme, *On the History of Patent Law in the Seventeenth and Eighteenth Centuries*, 18 L.Q.R. 280, 281-82 (1902) (reporting that British patentees were required to practice their inventions).

Congress has allowed the issuance of unworked patents,[19] but has never stated that patentees who do not work their inventions are entitled to mandatory (or almost mandatory) injunctions. Distinguishing patent holders who work their inventions from patent holders who do not do so is unimportant unless the patent holder wields the patent to foreclose others from practicing the invention. However, most patents are not used against competitors. Almost two-thirds of all issued patents lapse for failure to pay maintenance fees. *See* Mark A. Lemely, *Rational Ignorance at the Patent Office*, 95 Northwest Univ. L. Rev. 1495, 1503 (2001). Very few patents are litigated. *See id.* at 1501("At most about two percent of all patents are ever litigated, and less than two-tenths of all issued patents actually go to court."). If an invention is commercially viable, most patentees presumably will arrange for the technology's use. *See* Woodbridge v. U.S., 263 U.S. 50, 55-56 (1923) ("Congress relies for the public benefit to be derived from the

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19. Except as to alien-inventors from 1832 through 1836. *See Continental*, 210 U.S. at 429.

invention during the monopoly on the natural motive for gain in the patentee to exploit his invention and to make, use, and vend it or its product or to permit others to do so, for profit."). The existence of a mere-paper patent (one never used against an alleged infringer) hurts no one.

However, injunctions only issue if the alleged infringer wants to employ the technology. If the patent holder is not using the invention, an injunction forecloses all use of a commercially viable technology. Allowing patent injunctions that prevent any public use of the technology for the term of the patent is facially counter to the constitutional purpose of incentivising the distribution of technology. One could speculate that such extreme private entitlements are necessary to incentivise later dissemination of sufficient additional inventions, but Congress has not made such a finding and the empirical material is to the contrary. Multiple persons tend to invent the same subject matter at about the same time. *See, e.g.* T.S. Kuhn, *Energy Conservation as an Example of Simultaneous Discovery, in* Critical Problems in the History of Science 321-56 (M. Clagett, ed.; Univ. of Wisconsin Press 1969); B.S. Park, *The Contexts of Simultaneous Discovery*, 31 Studies in History and Philosophy of Science Part B 451-474 (2000). The numerosity of interferences supports this conclusion. *See* U.S. Pat. & Tmk. Off., Dept. of Commerce, Performance and Accountability Report for Fiscal Year 2005, at 122 (2005) (reporting 351 interferences pending as of Sept. 30, 2005).

Perhaps Congress would have the constitutional power to decide that injunctions for suppressed inventions are necessary for a patent scheme which overall promotes the distribution of new technology. However, absent clear

congressional statement, the courts should not push statutes toward the outer limit of congressional power. *See* INS v. St. Cyr, 533 U.S. 289, 299 (2001) ("[W]hen a particular interpretation of a statute invokes the outer limits of Congress' power, we expect a clear indication that Congress intended that result"; invoking "plain statement rule."). Without extremely clear statutory language, the Court will not assume "that Congress intended to infringe constitutional liberties or usurp power constitutionally forbidden it." DeBartolo Corp. v. Florida Gulf Coast Bldg. & Constr. Trades Council, 485 U.S. 568, 575 (1988)(invoking canon to prevent First Amendment question regarding "truthful[]" handbills).

Continental implied that only disclosure was required of the patentee, not just for patent validity, but for injunctive relief. *Continental* was decided in 1908, too far from 1789 to claim the gloss of original understanding of the Constitution by those who drafted and helped ratify it. The most interesting aspect of the *Continental* opinion is the sparseness of both its reasoning and its citations to authority. It jumped in one dizzying leap from a few cases classifying a patent as a property right (to exclude others from practicing an invention) to the conclusion that injunctive relief is available for all patent infringements.[20] No intermediate positions were recognized as even conceivable.

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20. *Continental* allowed injunctive relief to a patentee who was not working the invention. It did not take the further step of holding that injunctions must almost always be granted to non-working patent holders.

This naive theory of private property has long been abandoned. *See, e.g.,* Lucas v. S. Car. Coastal Council, 505 U.S. 1003, 1029-31 (1992) (recognizing that property interests, even those in real estate, are limited by underlying legal doctrines); Proprietors of the Charles River Bridge v. Proprietors of the Warren Bridge, 36 U.S. 420, 544, 549 (1837) (requiring construction of bargain between investors in toll bridge and the public to reflect the interest of the whole community). The Federal Circuit's strong presumption for injunctive relief in patent infringement cases is a lingering ghost of long dead doctrine.

Conclusion

For the reasons discussed above, this Court should both reverse the case at bar and adopt the constitutionally supported presumption that injunctions are unwarranted for patent holders who are neither practicing their infringed inventions nor making good-faith efforts to prepare to practice their inventions.

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No. 05-130

In the Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI* CURIAE QUALCOMM INCORPORATED AND TESSERA, INC. IN SUPPORT OF RESPONDENT

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No 05-130

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BRIEF OF *AMICI* CURIAE QUALCOMM, INC., TESSERA, INC. AND BIOGEN IDEC INC. IN SUPPORT OF RESPONDENT

Interest of the *Amici*

This brief is filed with the consent of the parties[1] on behalf of QUALCOMM Incorporated, and Tessera, Inc.

[1] The parties' blanket letters of consent have been filed with the Clerk in compliance with Rule 37.3. This brief was not authored in whole or in part by counsel for any party. No person or entity other than the *amici* made a monetary contribution to the preparation or submission of this brief.

Qualcomm is a leading developer and innovator of Code Division Multiple Access (CDMA) and other advanced wireless technologies. Headquartered in San Diego, Calif., Qualcomm is included in the S&P 500 Index and is a 2005 FORTUNE 500® company. Qualcomm presently has more than 4,000 United States patents and patent applications. Qualcomm's technology and semiconductor products are widely used in the manufacture of cellular telephones and other wireless devices. Qualcomm has licensed its technology to more than 125 leading telecommunications and consumer electronics equipment manufacturers around the world.

Tessera is a leading provider of miniaturization technologies enabling the semiconductor industry to build smaller, faster, and more reliable electronic products. Tessera presently has over 360 issued United States patents and over 50 licensees in the area of computer chip packaging technology, including the world's top semiconductor companies such as Intel, Samsung, Renesas, Toshiba and Texas Instruments, as well as a number of universities. Over 4.5 billion computer chips incorporating Tessera's miniaturization technology have been integrated into a range of wireless, computing, gaming, entertainment, medical, and defense-related electronic products. Tessera's ability to continue to innovate depends upon its ability to license its technology and enforce its patents.[2]

The viability of high technology industries depends in significant part on the maintenance of strong patent laws. The *amici* believe the well-established presumption in favor

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[2] BiogenIdec, Inc. joined these *amici* in filing a brief in support of the Respondent at the certiorari stage. BiogenIdec is a member of the Biotechnology Industry Organization which is filing its own amicus brief.

of permanent injunctive relief to implement a final judgment of infringement is essential to the ability of patent holders to enforce their patents. eBay seeks to dramatically alter the established system and create a disfavored class of patent owners that would, if adopted, cast a cloud over the ability of holders of United States patents to maintain technological leadership. The position they advance would result in a substantial disincentive to innovation and investment in research and development. Since the economy of the United States today rests on our technological strength, the change in the law that eBay seeks is not in the public interest.

It would be easy to look at the identities of the companies and trade associations that have filed amicus briefs and conclude that they reflect a difference between the electronics industry on the one hand and the biotech industry on the other. We are filing this brief to correct any such misinterpretation. The dispute is not between industry segments, but between those companies who have adopted a strategy of either ignoring patents or declining licenses in the belief they will not be sued or can wear down patent plaintiffs and those companies who believe in our patent system and have designed their business plans to see their patents brought to market in the most productive and effective way through licensing and/or development.

Summary of Argument

The effort of eBay and its *amici* to alter established principles governing final injunctions in patent infringement cases relies on numerous unsupported assertions about the role that final injunctions play in patent licensing and litigation. Those assertions consist primarily of their counsel's statements that are not supported with citations to reliable factual material. Many of the assertions are simply

characterizations of articles and publications that lack support in empirical evidence or peer-reviewed conclusions.

The reality, at least from the perspective of the parties filing this brief, is quite different. Final injunctions are an established part of the relief in successful patent infringement suits because the essence of the patent is the right to exclude others from practicing the patented invention – a right that is fundamentally different from the private rights protected in other civil litigations. The need for and frequency of final injunctions is therefore necessarily different than in non-patent cases. That difference reflects sound principles of patent law that have been part of our American patent system for about two hundred years. The current patent injunction principles do not require any judicial adjustment.

To the extent that there is any need for patent reform, that need is properly addressed by the legislative, and not the judicial, branch. Congress has shown an active interest in developing laws to preserve and enhance America's role as the leading force in technological development and that interest counsels judicial restraint, not the embracing of the policy arguments that led the trial court to erroneously deny an injunction in this case.

Argument

I. Petitioners' Description of the Patent Marketplace Is Inaccurate and Unsupported by Any Evidence

The petitioners' brief begins with a false assertion that because of the Federal Circuit's decisions on injunctions, "most defendants are coerced into settling and must abandon

even meritorious appeals, as well as reexamination challenges in the Patent and Trademark Office." (eBay Merits Br. at 3) Like the other depictions of a broken patent marketplace that are spread throughout the eBay *amici* briefs, this assertion of "the way the world is" is not supported by empirical evidence. In fact, the reality that emerge from this Court's own files reveals the inaccuracy of eBay's characterization.

This case itself shows that willful infringers are not cowed by the prospect of an injunction after an unsuccessful litigation defense and are not "coerced" into any settlement. To the contrary, large corporate infringement defendants often pursue a "scorched earth" defense strategy, particularly when they are sued by smaller entities.

Perhaps the best evidence refuting eBay's characterization of the impact of injunctions is found in the recently concluded saga of the BlackBerry®. The *Research in Motion v. NTP* litigation was before this Court in the context of an application for a stay (No. 05A357, application to recall and stay mandate denied, Oct. 26, 2005) and a petition for a writ of certiorari (No. 05-763, petn. denied Jan. 23, 2006). In that case, the manufacturer of the ubiquitous BlackBerry® wireless email system was found to have willfully infringed several of NTP's patents. The trial court's injunction that would have shut down the system was stayed pending appeal. The defendant did not settle the case in the face of that injunction and the jury finding of willful infringement, but continued to litigate vigorously and sought

to take advantage of re-examinations of the patents at the PTO.[3]

After two decisions from the Federal Circuit upholding the jury verdict on several of the patent claims, affirming the key elements of the trial court's claim construction and finding the patents valid, RIM sought review here. Following the January denial of that petition, the case returned to the District Court for a decision on lifting that court's stay of its injunction. Despite widespread concern among BlackBerry® users that an injunction would issue and shut the system down, RIM did not settle the case, but continued to litigate. When the matter came before the District Judge on February 24, 2006, he remarked at the end of an almost four hour hearing that he was "absolutely surprised that you have left this incredibly important and significant decision to the court. . . . I have always thought that this decision, in the end, was a business decision." (remarks of Judge Spencer as quoted in Joshua Brockman, *Judge Lets BlackBerry Stay in Play for Now*, N.Y. TIMES, Feb. 25, 2006 *available at* http://www.nytimes.com/2006/02/25/business/25rimm.html) (copy on file with author).

RIM finally settled the case for a payment of $612,500,000 in exchange for a fully paid-up license to all of

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[3] *See, e.g.*, Associated Press, *Judgment day nears for BlackBerry maker* (Feb. 20, 2006) *available at* http://edition.cnn.com/2006/TECH/biztech/02/20/BlackBerry.battle.ap/ (copy on file with author); RIM Press Release, *RIM Provides Update on Patent Reexamination Proceeding* (February 1, 2006) *available at* http://www.rim.net/news/press/2006/pr-01_02_2006-02.shtml (copy on file with author).

NTP's patents and a termination of all litigation.[4] That settlement was not – as eBay's arguments would suggest – a grossly inflated sum driven by the coercive effect of an impending injunction. The sizeable settlement was in fact substantially less than the jury verdict and the estimated dollar value of the future royalties on the BlackBerry® products that RIM could have expected to pay using the reasonable royalty rate found by the jury and affirmed by the courts. According to Wall Street brokerage firms, the present value of the future royalty stream ranged from $840,000,000 to over $3,000,000,000.[5] When the jury verdict for past damages is included, the present value of NTP's judgment exceeded $1,000,000,000 under the most conservative of the available estimates.

The facts of the BlackBerry® litigation and settlement illustrate the exaggerations that eBay and its *amici* have put forth in their effort to show that the long-standing rules regarding final injunctions in patent cases cause potential defendants to accept an inflated settlement out of fear their

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[4] Associated Press, *Settlement Reached in BlackBerry Patent Case* (March 3, 2006) *available at* http://www.msnbc.msn.com/id/11659304 (copy on file with author).

[5] An October 25, 2005 Citigroup Research report concluded the present value of future royalties that RIM could owe on the NTP patents was in the range of $3,000,000,000 to $4,000,000,000. The report is available to the public from the SmithBarney website (http://www.smithbarney.com) where anyone can register for free guest access and enter the "Research" area to get the analysis using the ticker symbol RIMM. A January 19, 2006 report from Merrill Lynch placed the present value of the future royalties at $840,000,000. (copies of both reports on file with author).

products will be removed from the marketplace. The argument has not been supported by actual examples. We submit that the absence of any actual examples exposes a fatal flaw in the eBay argument.

The briefs filed by eBay and its *amici* are filled with assertions that an enormous problem exists, particularly in the high technology industry, because of defects in the patent system and a recent proliferation of non-practicing entities ("NPEs") that exist solely to litigate and make money on the basis of invalid patents. The secondary sources that are cited in those briefs to support this argument have never been produced in court or subjected to cross-examination. Indeed eBay's *amici* have gone so far as to rely on an unpublished trade association survey to support their claim of market collapse.[6] The Court should not base its decision on such unreliable assertions of the effect of current rules.

The judicial and legislative war that eBay and others in the electronics industry are waging against the availability of injunctions to NPEs rests on a base of undocumented statements about the present state of patent litigation. Those proponents charge that these small patent owners are unfairly beating up on them by having the weapon of an injunction. It is ironic that the loudest proponents of a change are large multi-million-dollar entities that have been successfully sued by small companies whose patents have withstood the test of litigation through the trial and appellate courts.

The arguments presented by the Petitioners and its supporters are the legal equivalent of Goliath asking an ancient disarmament commission to take away David's slingshot because it was an excessively powerful weapon.

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[6] Br. of *Amici* Business Software Alliance *et al.* at 17, summarizing a "forthcoming" survey by the American Electronics Association.

eBay and its allies have proven themselves more than able to defend themselves in court. They do not need a change in the rules to gain leverage in their efforts to compete.

The companies who are filing this brief have been involved in several patent litigations, both as plaintiffs and as defendants. It has not been their experience that the possibility of an injunction is the determinative – or even the most significant – factor in a potential defendant's decision to take a license or settle a lawsuit. The possibility of an injunction at the end of an unsuccessful defense is, of course, a factor, but it is only one of the many litigation risks that influence the licensing and settlement equations. The far more significant factors in most cases are the strength of the asserted patent, the scope of the patent as it affects the accused infringer's business, the risk of substantial damages, the inherent uncertainty of claim construction decisions (both at trial and on appeal), the size of potential jury verdicts, and the very high cost of patent litigation. In view of the numerous factors, the current injunction standards do not have the determinative effect on the frequency or the size of patent litigation settlements or licenses that is claimed by eBay and its *amici*.

In the current marketplace, the character of the owner of the patent has little effect on how the market values that patent. eBay's proposed changes would significantly alter that situation by making the patent holder's utilization of the patent a factor in issuing a final injunction. If eBay's proposal for some type of carveout in the injunction rules for certain patent holders – i.e., NPEs – were adopted, then the value of patents would depend on who owns the patent rather than the intrinsic value of the claimed invention. An NPE would – in eBay's world – have a significantly different chance of obtaining an injunction after a successful litigation than would an owner who was practicing the invention. That world would be a distortion of the marketplace. The value of

property should not depend on legal rules that are different for different owners.

The parties to this brief believe that the patent marketplace – both in its licensing and litigation spheres – is functioning efficiently. There is no great imbalance caused by the Federal Circuit's decisions on when injunctions should issue. This Court is ill-served by shrill claims that the sky is falling and that this Court needs to superintend the Federal Circuit to put the marketplace back together again.

On the basis of their own experiences, these *amici* believe the present patent licensing and technology transfer market is built on a widely shared understanding of how the current patent injunction rules actually work. The terms and conditions of commercial arrangements reflect accurately how these rules integrate into all the other factors that determine the details of any licensing agreement. Business solutions on pricing and other terms are reached through true arms length negotiations that are not unduly affected by possible injunctions.

We believe that the differences in perspective that are evident from the many briefs before the court in fact reflect a fundamental difference in the business plans that have been adopted by technology concerns. Firms like eBay, RIM and other eBay supporters are fundamentally anti-patent. They view patents as roadblocks to technology, not as essential incentives that make technological advances possible. Their approach often is to disregard patents.[7] It is only when they

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[7] The suggestions by eBay and its supporters that it is impossible in today's environment to know about patents that might be infringed are contradicted by the experiences of more established corporations that "proper diligence generally will uncover the intellectual property of others." Br. of *Amici* General Electric *et al.* at 19-20.

face patents held by large competitors that they take a license prior to the end of extraordinarily expensive and protracted litigation.

The anti-patent, anti-injunction posture that undergirds eBay's position is fundamentally at odds with the strongly pro-patent policy that this country has adopted since its creation over two hundred years ago.[8] The Court should follow the path marked by the Founders and Congress and not take the road in the opposite direction that eBay and its *amici* point toward.

II. eBay In Effect Asks The Court to Overrule *Continental Paper Bag* and Hold That Issuance of a Final Injunction Depends in Part on Whether the Patentee is Practicing the Invention

When eBay petitioned for a writ it suggested that the decision of the Federal Circuit was inconsistent with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). (Petn. at 24-25) The Court apparently recognized that eBay was misreading that case and that *Paper Bag* in fact undercut eBay's position. Now that the Court has directed the parties to squarely address that issue, eBay has adopted a very different posture. On the one hand its primary position now is that *Paper Bag* is not inconsistent with the rule it urges the Court to adopt. (eBay Merits Br. at 16) On the other hand eBay argues that to the extent the decision supports the Federal Circuit's decision, *Paper Bag* should be overruled. (*Id.*) eBay no longer embraces the case as one supporting its position, but instead tries to dismiss it as irrelevant. The Court should not be misled by this

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[8] That history is fully documented in the amicus brief filed by Intellectual Ventures, Nathan Myhrvold and others.

turnaround. Despite efforts to distinguish that long-standing precedent, eBay is in fact asking this Court to severely limit – if not squarely overrule – *Paper Bag*.

The trial court's denial of an injunction rested significantly on its conclusion that "[s]ubstantial evidence was adduced at trial showing that [MercExchange] does not practice its inventions and exists merely to license its patented technology to others." *MercExchange, LLC v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003). eBay and its *amici* continue to rely on that statement, referring to the NPE factor multiple times in their briefs. (eBay Merits Br. at 24-25; Br. of *Amici* Business Software Alliance, *et al.* at 12-18; Br. of *Amici* Time Warner, *et al.* at 17-19) The trial court's reliance on that factor, which MercExchange argues convincingly is factually wrong, reflects a failure to understand and apply the principle establish by the *Paper Bag* decision almost a century ago. The Court of Appeals properly reversed the trial judge because that rationale for denying an injunction cannot be reconciled with this Court's 1908 decision.

We agree with MercExchange and other *amici* supporting the Respondent that consideration of whether the patentee practices its invention is and should remain irrelevant to the judicial decision on whether to issue a final injunction. The central holding of the *Paper Bag* decision was a rejection of the NPE argument advanced here by eBay and its *amici*. That case involved a bill in equity to enjoin the Continental Paper Bag Co., a competitor of the Eastern Paper Bag Co., from infringing a patent covering a particular machine for making paper bags. The defendant argued that a court of equity had no jurisdiction to issue an injunction because the plaintiff's patent was "a mere paper proposition which it has never put into effect or use." *Id.* at 406. Continental made the same policy argument that eBay and its *amici* advance here: "[I]t is contrary to equity to suppress a

useful and established business" in a case where the patent owner "simply owns [a] patent that has never been employed by that complainant in any way. . . ." *Id.* at 406-07. The Circuit Court had expressly recognized that "the complainant, so to speak, locked up its patent. It ha[d] never attempted to make any practical use of it, either itself or through licenses, and, apparently, its proposed policy has been to avoid this." *Id.* at 427-28. That court had "no doubt that the complainant stands in the common class of manufacturers who accumulate patents merely for the purpose of protecting their general industries and shutting out competitors." *Id.* at 428.

The *Paper Bag* Court answered the policy argument unequivocally:

> As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.
>
> The right which a patentee receives does not need much further explanation. We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor.
>
> *Id.* at 429 (internal citation omitted).

The Court went on to conclude that Eastern was entitled to an injunction, notwithstanding the fact that it never made any use of the patented invention.

A. The Central Holding in Continental Paper Bag Was Sound and Is As Valid Today As It Was Then

The Court should re-affirm the *Paper Bag* conclusion. The briefs filed by MercExchange, Intellectual Ventures, Rembrandt and Various Law & Economics Professors show that the holding in that case reflected well-established common law principles that had been widely-followed in decades of prior patent litigation. Those briefs also show that the holding has been followed in the almost one hundred years since that decision. There is nothing in the history of United States patent law that requires a patentee to practice the invention in order to obtain enforcement of all of its rights to exclude others from practicing that invention. The patent laws of some other countries do require a patentee to practice the invention,[9] but the United States has never adopted that rule as a general policy. eBay's position amounts to a diluted version of a "working requirement" because it would have the decision on issuing a final injunction turn in part on whether the owner was licensing the patent solely to earn royalties or as part of

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[9] Many countries have a codified working requirement. For example, in Japan, France, Brazil, Mexico and South Africa, one may apply for a compulsory license if a patent is not worked or used within three years of its grant. *See* ARNOLD SIEDSMA, MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS AND TRADEMARKS THROUGHOUT THE WORLD (Kluwer Law International 2006).

its own deployment of the patented invention.[10] The Court should not now adopt a policy that Congress has decided not to adopt.[11] It is within the purview of Congress, not the Court, to legislate.

Patent owners, like owners of other real and personal property, have the absolute right to decide how to use their property, subject to valid restrictions to protect the public. A land owner can let her land lie fallow; the owner of a work of art can choose to display it in his home rather than a museum. The owner of a patent can choose to practice it, to license it or – as Eastern Paper Bag did – to let it lie unused. "The federal patent system . . . embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Bonito Boats v. Thunder Craft Boats*, 489

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[10] eBay's argument is facially inconsistent. Any NPE that might be trying to use its patents to extract royalties cannot benefit by getting an injunction because the injunction would preclude payment of the royalties. Thus an NPE has the same incentive that a patentee who practices its invention has – to see the invention deployed as widely as possible.

[11] Despite numerous past attempts, compulsory licensing schemes have consistently failed before Congress. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 (1945) (citing seven prior attempts in 1877, 1911, 1912, 1942 (x2) and 1943). More recent attempts have failed as well. *See e.g.*, H.R. 4815, 107th Cong. (2002) (proposing compulsory licensing for certain patented inventions related to genetically engineered crops and animals); H.R. 3235, 107th Cong. (2001) (proposing compulsory licensing for certain patented inventions relating to health); H.R. 1708, 107th Cong. (2001) (same); H.R. 2927, 106th Cong. (1999) (same).

U.S. 141, 150 (1989). Absent a compensated taking of the patent, that public disclosure is the only thing the patentee has to give up in order to obtain full benefit of the right to exclude.

There is no sound reason to change the established rights of patent owners. In some instances, a patent holder may decide that the most efficient way to obtain the full value of its patent is to sell products or services incorporating the patented invention. In other instances, the patent holder may decide that it is more beneficial to license one or more entities to practice the invention or sell the patent to someone else. Or a patent holder may even decide to let the patent lie fallow. This decision is the patent holder's alone – courts should not dictate the result by establishing overly-restrictive rules for issuance of injunctions.

Qualcomm's own experience in bringing innovative technology to market is informative. Qualcomm developed a technologically-advanced method of wireless communications – CDMA (Code-Division Multiple Access) – that allows for far more efficient use of the available wireless frequencies than other technologies. Qualcomm developed this technology and obtained several patents on it. Qualcomm initially tried to market the technology by manufacturing its own branded cellular phones. It soon discovered that success in the cellular phone business required substantial resources and access to many technologies other than CDMA. As a result, it changed its approach and undertook to license its patents to other entities. In significant ways, Qualcomm's story is similar to MercExchange's efforts to commercialize its patents before

turning to licensing as a more viable alternative.[12] The major difference is that Qualcomm was large enough to obtain licenses without having to first endure protracted litigation and without having to counter companies that decide to simply take the technology withqut paying for it.

Likewise, Tessera's experience in developing and gaining industry adoption of its technology is informative. Tessera developed fundamental semiconductor packaging technology that allows packaged chips to be significantly smaller and thinner in format and yet be mechanically reliable and have a higher level of electrical performance than previous technology. It took more than 10 years and over one billion dollars of investment by Tessera, its licensees and others for Tessera to gain sufficient adoption of its technology by the industry, resulting in Tessera's ability to be successively profitable on a quarter-to-quarter basis. Tessera did not start out as a licensing company or a NPE. Initially, Tessera's business model was a manufacturing model – it intended to make low cost, high speed electronic modules using other companies' semiconductor chips. However, because Tessera's chip vendors for these modules preferred to offer these modules themselves, they wanted multiple sources of the Tessera technology. Multiple sources were important for them because it allows for price competition and a lower risk of non-delivery.

After much deliberation, Tessera changed its business model to a licensing model so the technology could gain broader adoption and so these and other companies could more readily gain access to it at a reasonable price point.

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[12] The history of Qualcomm's growth is detailed in Dave Mock, "The Qualcomm Equation: How a Fledgling Telecom Company Forged a New Path to Big Profits and Market" (AMACON 2005).

Today, virtually every cellular phone in the world contains multiple chips packaged with Tessera's technology. Further, the most recent generation of DRAM is likewise using Tessera technology because of its high electrical performance characteristics. Tessera has had to endure patent litigation with some of the largest and most litigious companies in the industry to get them to pay for the Tessera technology they are using – companies such as Texas Instruments, Samsung and Sharp Corporation. All of these companies currently pay running royalties to Tessera for the technology at issue in each of their litigations. Today, Tessera's licensee list looks like a virtual who's who of the semiconductor industry, including the five largest companies in the world and approximately 50 other significant world-wide semiconductor companies.

The experiences of Tessera and Qualcomm aptly illustrate the impossibility of implementing the change in the law urged by eBay. There is no clear distinction between those experiences and the experiences of MercExchange as detailed in the Respondent's Merits Brief. There is no basis in eBay's argument for deciding which of the three companies is an NPE and which is not. Reduced to its essence, eBay's argument is that there are "bad actors" – at least in eBay's eyes – out there who deserve to have a higher hurdle placed in their path of patent enforcement. That contention is extraordinary considering that it comes from a proven "bad actor" that willfully infringed MercExchange' patents after unsuccessfully negotiating for a license. eBay has not offered any test that would differentiate between its unsuccessful negotiations with MercExchange and similar impasses in negotiations that have been undertaken by Qualcomm, Tessera or any of many other technology companies. eBay's proposal thus amounts to an extraordinarily self-centered rule that lacks any concept of judicious application of neutral legal principles

B. The Limitation on Injunctions Urged by eBay is Illusory and Impracticable.

The so-called NPE exception advanced here cannot be applied in practice using any judicially manageable standards. The largest group of non-practicing entities is the university community. Petitioners' *amici* rush to assure the Court that their proposal would not apply to universities. (Br. of *Amici* Business Software Alliance *et al.* at 29; Br. of *Amici* Research in Motion at 13) But they provide no neutral principle for excluding universities from the new rule they propose.[13] There is simply no way to subdivide NPEs into "good NPEs" and "bad NPEs." There is no judicially-manageable bright line between supposed "patent trolls" and inventors who cannot practice their inventions because of resource limitations or managerial considerations. The result of adopting eBay's proposal would be the creation of judicially-sanctioned discrimination; the legal protection accorded a U.S. patent would depend on who owned that patent and not on the intrinsic value of the property itself. Discrimination because of the character of the owner is antithetical not only to our patent system, but to

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[13] The impact of the eBay proposal on universities is detailed in the *amicus* briefs of the Association of American Universities *et al.* and the Wisconsin Alumni Research Foundation.

constitutionally-grounded values that this Court protects.[14]

A successful patent plaintiff's prior licensing or manufacturing activities may in some cases be relevant to the judicial decision to issue a final injunction, but that prior activity cannot be a controlling factor. The Court should not skew the analysis by adopting eBay's position that a patent owner who does not practice its invention is automatically less entitled to an injunction.

III. The Conflicting Policy Arguments Regarding the Balance of Rights in the Patent Marketplace Are Properly Addressed by the Legislative – Not the Judicial – Branch

eBay's original petition and its merits brief include public policy arguments for changing settled law regarding final injunctions that protect the patentee's right to exclude. We noted in our amicus brief opposing the grant that the same argument was then being advanced in Congress in support of pending legislative proposals to amend 35 U.S.C. § 283 to tilt the law in eBay's favor. See, e.g., Oversight Hearing on the Committee Print Regarding Patent Quality Improvement (Part I), House Jud. Comm. (Apr. 20, 2005); Legislative Hearing on H.R. 2795 ("the Patent Act of 2005"), House Jud. Comm. (June 9, 2005); Legislative

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[14] The impossibility of separating "good" and "bad" patentees is illustrated by the conflicting views of the parties as to the true nature of MercExchange. eBay in effect says that MercExchange, like other entities it labels NPEs, exists only to extort money through litigation. (eBay Merits Br. at 24-25) MercExchange responds by suggesting it is the victim of a corporate giant that decided to steal its ideas rather than to enter into a business relationship.

Hearing on "The Amendment in the Nature of a Substitute to H.R. 2795, the 'Patent Act of 2005,'" House Jud. Comm. (Sept. 14, 2005). eBay's Reply Brief suggested we were misrepresenting the facts and that there was no legislative activity still underway. (Reply Brief of Petns. at 10) In fact, legislative efforts were still ongoing at that time and today.

The legislative initiative that The Business Software Alliance[15] and other entities undertook in an effort to reduce the likelihood that a NPE can obtain an injunction continues. As recently as January 25, 2006, IBM's senior site executive in Texas was quoted as saying that "Rep. [Lamar] Smith is leading the charge to making the biggest changes in the patent industry in the last 50 years." L.A. Lorek, "*Lawmaker blasts 'patent trolls'*" SAN ANTONIO EXPRESS-NEWS, January 28, 2006 at D1. Congressman Smith, the Chairman of the House Judiciary subcommittee on Courts, the Internet and Intellectual Property that is considering H.R. 2795, validated the fact that the legislative efforts are ongoing when he stated that Congress is "looking to protect everyone, from the lone inventors in their garages to IBM." *Id.*

The ongoing legislative process has already precipitated extensive debate and testimony before congressional committees. As is true with other controversial policy issues, the legislative process affords all interested parties an opportunity to state their views, document their claims and engage in full and active dialogue with the decision-makers. The legislative process allows for

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[15] That trade association has filed an amicus brief in support of eBay in this case. The Information Technology Industry Council has joined in that brief. As noted in that brief, Qualcomm and eBay are both members of ITI. (Br. of *Amici* Business Software Alliance *et al.* at 2) Qualcomm does not support the position taken by ITI in this case.

presentation of facts and examination of the validity of fact-based arguments. The appellate judicial process necessarily affords a far less fulsome, accurate and democratic mechanism for considering the effect of policy changes.

Judicial restraint in this case counsels against the Court's exercise of its discretion when the issue is actively under consideration by the Legislative Branch. As Justice Powell stated for himself, Chief Justice Burger and Justice Blackmun, "confidence in the restraint of the Court is impaired, when we appear unnecessarily to decide sensitive issues of broad social and political importance at the very time they are under consideration within the prescribed constitutional processes." *Frontiero v. Richardson*, 411 U.S. 677, 692 (1973) (concurring opinion). That observation regarding the pendency of the Equal Rights Amendment applies as well to this case given the pendency of legislation to amend to amend the patent laws.

The established principles of *stare decisis* counsel against changing the rules regarding injunctions in patent cases that have been built upon the *Paper Bag* decision. The Court has recognized that those principles apply with greater force when the issue is not one of constitutional dimension. There have been numerous occasions when the Court has reconsidered prior non-constitutional cases and decided that if there is to be a change, it should come from Congress and not this Court.

For example, professional baseball has long been exempt from application of the Sherman Antitrust Act, even though other professional sports are subject to that act. In 1972 the Court revisited the issue in *Flood v. Kuhn*, 407 U.S. 258 (1972). The Court concluded that it was up to Congress to change the law. *Id.* at 282.

In a similar vein, the Court in 1992 reconsidered the judicially-created principle that federal diversity jurisdiction does not extend to domestic relations cases. In *Ankenbrandt*

v. Richard, 504 U.S. 689 (1992), the Court concluded that the "domestic relations exception exists as a matter of statutory construction not on the accuracy of the historical justifications on which it was seemingly based, but rather on Congress' apparent acceptance of this construction." *Id.* at 700.

In each of these cases the Court recognized that the primary law-making branch of our federal government is Congress, not the courts. In each case the Court concluded that if there was to be a change in the law, the change should come from Congress, not the Court. Those cases are based on considerations of the separation of powers that should guide the Court's consideration of this case. The standards for issuing final injunctions in patent cases that were applied by the Federal Circuit are consistent with decades – if not centuries – of American judicial precedent. eBay seeks to change those established standards and instead substitute a principle that this Court itself rejected almost 100 years ago. The arguments for that change are flawed and unpersuasive. In any event such a radical change should not come from the judicial branch.

Conclusion

For the reasons stated, the Court should affirm the judgment of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF REMBRANDT IP MANAGEMENT, LLC AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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BRIEF OF REMBRANDT IP MANAGEMENT, LLC AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

INTEREST OF THE *AMICUS CURIAE*[1]

Rembrandt IP Management, LLC ("Rembrandt") is a non-practicing entity ("NPE")—a firm that invests in patents but does not practice them. *Amicus* and other NPEs help inventors and other patent owners—typically individuals and smaller companies—realize the value of their inventions, something they otherwise could not do.

Rembrandt, based in Bala Cynwyd, Pennsylvania, specializes in enforcing patent rights against infringers. Rembrandt shares a significant percentage of the revenues it earns from license agreements and litigation with the inventors whose intellectual property rights the firm enforces. Accordingly, the firm serves, in the words of one commentator, as an intermediary "to exploit the value of patents that cannot be exploited effectively by those that have originally obtained them."[2]

As will be explained in more detail below, *amicus* and other NPEs play a valuable role in a system of free enterprise in which all property rights, including intellectual property rights, are (and must remain) freely tradable. NPEs allow inventors to concentrate on inventing while the NPE realizes the value of the patent through licensing and enforcement. Similarly, when they purchase patents outright from inven-

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[1] All parties have consented to the filing of this brief. The parties' letters of consent have been lodged with the Clerk of Court. Pursuant to Rule 37.6, *amicus curiae* states that no counsel for a party has written this brief in whole or in part, and that no person or entity other than *amicus* or its counsel made a monetary contribution to the preparation or submission of this brief.

[2] Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 TEX. L. REV. 961, 1024 (2005).

tors, NPEs function as market-makers—the inventor is immediately compensated and motivated to continue inventing, while the NPE undertakes to ensure that the invention is appropriately valued in the market.

Amicus is interested in this case because its functions, like the value of the rights it enforces, depend on courts' adherence to a sound and longstanding principle: Whether a patent holder practices the patented invention is irrelevant to whether the holder is entitled to injunctive relief for infringement. Because petitioners have drawn this principle into question—and because the district court impermissibly departed from this principle—*amicus* will explain why the Court should not alter or abandon this longstanding precedent in considering the standards for granting an injunction to remedy patent infringement.

SUMMARY OF ARGUMENT

A number of the arguments made by petitioners and their *amici*—and ultimately the analysis of the district court below—rest on a series of misconceptions about the workings of patent law, economics, and the role of non-practicing entities, or NPEs. The purpose of patent law is to promote progress by creating the proper incentives for invention and public disclosure. The mechanism for achieving these results is to create a property right in the invention. For property rights to achieve their full value, they must be freely tradable and must not be enforceable in different ways depending on a court's subjective evaluation of the use the holder is making of the right.

NPEs further the purposes of patent law. They help level the playing field for patent enforcement, and allow inventors to do what they do best—invent—while leaving to the NPE the risks and potential additional rewards of developing the value of their inventions in the marketplace. NPEs, in short, function with respect to inventions both as venture capital firms and as market-makers, and facilitate the public disclo-

sure of invention, which is one of the patent system's primary functions.

The judgment of the district court, as well as the arguments of *amici* who take aim at NPEs, run contrary to common economic sense and violate the law of unintended consequences for actors upstream and downstream from the NPEs. If non-users alone are deprived of injunctive relief, then patents will be worth far less to NPEs like *amicus* Rembrandt, which means NPEs will pay far less for patents, which will greatly diminish independent inventors' and small companies' incentive to innovate. Moreover, it is not just NPEs that sue to enforce patents that they are not practicing—ordinary companies that manufacture and sell products do this on a regular basis. The proposals of some of petitioners' *amici* lead to the illogical result that, if one such company were to acquire Rembrandt's patent portfolio, that company would be entitled to an injunction, even though the same patents in Rembrandt's hands would be protected only with money damages. Furthermore, a test of whether the plaintiff is using the patent would make patent litigation even more complicated and expensive than it already is.

More generally, any regime of compulsory licensing—which is what petitioners and their *amici* ask for, at least as regards NPEs—is a regime in which inventors are undercompensated, intellectual property is misvalued, and infringement and litigation are routine, as well-funded actors find it more worth their while to infringe and pay limited damages later than to negotiate with a patent-holder now. Another problem is that, without an injunction, the patent-holder is forced to accept a court-imposed royalty. But private parties, not courts, are in the best position to set royalty rates and terms. The complaints of petitioners and their *amici* about the "unfair" leverage created by an injunction really boils down to a complaint about the price of infringing independent inventors' and smaller entities' intellectual property.

not a principled position about the nature and value of patent rights.

In the case before the Court, the question is not *whether* the district courts have discretion in determining the remedy for patent infringement, but rather what standards inform and limit that discretion.

A crucial standard—one that the district court abused its discretion by ignoring—is that the use a patent-holder is making of the invention does not affect the remedy to which it is entitled. This principle is articulated clearly in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), and its progeny. *Continental Paper Bag* is not merely a 98-year-old precedent of this Court; it is also effectively part of the injunction statute. Congress has reenacted the injunction provision numerous times since 1908, and in each reenactment is presumed to have incorporated judicial constructions of the provision. Moreover, for the first half of the last century, Congress repeatedly returned to the question whether non-users should be subject to a compulsory license. Each time Congress revisited the issue, it left in place the rule that non-use does not deprive a plaintiff of injunctive relief.

Ultimately, the suggestions of petitioners' *amici* that courts impose a unique penalty on NPEs are really a demand to make infringement less expensive for well-funded actors and a call to legislate about issues not presented by this case. The *amici* contend that many patents are vague or of poor quality and that, in the technology sector, products and services touch on numerous patents, creating the risk of "hold-up." Whether or not those are real issues—we contend they are not—they are not for this Court to decide in this case. eBay has been adjudicated a willful infringer of MercExchange's valid patents. Those findings are not challenged here. The courts have many tools for dealing with vague or low-quality patents, and in any case systemic critiques are best directed to the Legislative and Executive Branches. The

attacks on NPEs leveled by *amici* dissatisfied with aspects of the patent system not implicated by this case present no good reason to use this case to tinker with the remedy for infringement.

ARGUMENT

I. NON-PRACTICING ENTITIES PLAY A KEY ROLE IN A SYSTEM DESIGNED TO PROMOTE PROGRESS BY PROTECTING INVENTION

A. The American economy is driven by innovation, and innovation is greatly facilitated by strong patent protection. By allowing private ownership in inventions, the patent system creates an incentive to invent. Without patent protection, many would-be inventors either would not bother to invest time, effort, and money in creating inventions, or would not disclose their inventions to the world. The exclusive property right created by the patent has several public benefits. It assures the inventor compensation for the work of successful invention. It allows the inventor to disclose the invention to the public and to potential investors without the fear of unlicensed imitation or appropriation. And it encourages investors—which could be the patent-holder himself, his licensees, or outside financiers—to risk capital in bringing the invention to market. Without the incentives and protections afforded by the patent grant, far fewer inventions would be disclosed to the world in the same timeframe.

None of these critical functions could be performed effectively if the patent right, like any property right in a capitalist system, were not freely transferable. As this Court has explained, "[p]ermitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention." *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). The person best at coming up with new devices and processes is not necessarily the person with the capital,

know-how, or access to bring those ideas to the market. See, *e.g.*, *A Market for Ideas*, ECONOMIST, Oct. 22, 2005.

The clearest illustrations are professional independent inventors, many of whom depend on license agreements with manufacturers to realize financial returns from their work. A great many people in the United States and other countries make a living, or seek to do so, by inventing. The phenomenon is by no means limited to celebrities of the late nineteenth century like Thomas Edison and Alexander Graham Bell. See, *e.g.*, Susan Chaityn Lebovits, *What's the Idea? They've Got It*, BOST. GLOBE, May 12, 2005, Globe West, at 1 (profiling successful Boston-area inventors and noting that "not all the area's Edisons began ensconced in ivory towers or gleaming office parks. Many started by toiling away in kitchens, basements, and temporary offices."); Meredith Cohn, *Big Ideas, Long Odds*, BALT. SUN, Oct. 29, 2004, at C1; Larissa MacFarquhar, *Looking for Trouble*, NEW YORKER, Dec. 6, 1999, at 78 (profiling David Levy, a former engineer for Apple Computer and now a professional inventor whose creations include a keyboard pad small enough for a cellular telephone).

Research universities, too, are generally are not equipped to manufacture and distribute products, but, encouraged by the Bayh-Dole Act of 1980,[3] many of them have set up active licensing programs to transfer to private industry the patented innovations that result from research performed in their laboratories. See, *e.g.*, Rebecca S. Eisenberg, *Public Research and Private Development: Patents and Technology Transfer in Government-Sponsored Research*, 82 VA. L. REV. 1663 (1996); Shira Boss-Bicak, *Moving Ideas off Campus*, N.Y. TIMES, Oct. 28, 2004, at C6.

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[3] Act of Dec. 12, 1980, Pub. L. No. 96-517, § 6, 94 Stat. 3015 (codified as amended at 35 U.S.C. §§ 200-211 (2005)).

Perhaps the most spectacular success story in modern times of an entity that develops patents without practicing them is QUALCOMM Incorporated ("Qualcomm"). Qualcomm, which was founded in 1985 as a start-up research and development firm for the emerging wireless telecommunications industry, today holds more than 3,900 patents and patent applications.[4] The company developed and distributed the "code division multiple access" (CDMA) technology on which many of the world's cellular networks are based today. Qualcomm now derives the vast majority of its revenue from two core businesses: licensing its patents, and designing—but not manufacturing—the microchips used in cellular telephones and other wireless devices. In fact, the company formerly manufactured telephones and network equipment, but eventually sold those businesses to concentrate purely on development and licensing. See Qualcomm et al. Cert.-Stage Br. 2; James Aley, *Heads We Win, Tails We Win*, FORTUNE, Mar. 3, 2003.

B. NPEs like *amicus* Rembrandt perform an important function. By specializing in the acquisition, licensing, and enforcement of patents, they promote both invention and disclosure of invention to the public, and ensure that intellectual property is appropriately valued and put to its best use.

Individuals and small entities are "a significant source of innovative products and services." WENDY H. SCHACHT & JOHN R. THOMAS, PATENT REFORM: INNOVATION ISSUES 10 (Congressional Res. Serv. July 15, 2005). Because of barriers to market entry and a disparity in bargaining power, however, independent inventors and smaller companies frequently are not well positioned to commercialize their inventions. That is where NPEs come in. Unlike inventors, NPEs specialize in valuation, licensing, and enforcement. An

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[4] See QUALCOMM History, *at* http://www.qualcomm.com/about/history.html.

inventor working with an NPE negotiates a license for its intellectual property the same way a well-funded large corporation does—with a credible threat of enforcement.

A small inventor or company not backed by an NPE typically has no hope of challenging a large corporation that is infringing the inventor's patents. Patent litigation is notoriously expensive, SCHACHT & THOMAS, *supra*, at 7-8, and presents ample opportunities for well-funded corporations to run the clock with an endless stream of motions and discovery requests. Frequently the litigation includes not just proceedings in the district courts but also parallel proceedings in the Patent and Trademark Office or the International Trade Commission, or both. It also lasts a very long time, which further tips the playing field against the inventor or small company.

Large companies have other advantages, too. Unlike small companies, they are well positioned to countersue for alleged infringement or anticompetitive practices, and they do not have to be as concerned as small companies with the destabilizing effects of litigation. For example, in the case of a small company, the infringer could be its major customer or supplier, which could make the small company incapable or unwilling to sue or defend against a countersuit. In short, with no NPE in the picture, a well-financed corporation can quickly exhaust the ability of a small inventor or company to protect its intellectual property.

NPEs also help inventors concentrate on doing what they do best. Many inventors do not want to get involved in licensing, especially because a successful licensing program can take years to establish. When an NPE purchases a patent or an exclusive license to it, the inventor is freed up to move on to the next project, while the NPE assumes for itself the risks and potential additional rewards of monetizing the intellectual property in the market.

NPEs benefit the public as well. Without NPEs, many inventions would never reach the market. Some inventors would not have the time, support, and incentive to come up with them. Other inventors that did come up with inventions would not bother to patent or license them. NPEs thus facilitate the disclosure of invention that is one of the key features of the patent bargain. Indeed, NPEs have every incentive to make inventions available to the public. Precisely because they do not manufacture or sell products, NPEs must enter into license agreements with others. Actually enforcing the exclusivity conferred by the patent grant would simply deprive the NPE of any revenue.

As a number of observers have noted, ideas have become a key raw material of the information economy. See, *e.g.*, *The Liquidity of Innovation*, ECONOMIST, Oct. 22, 2005. In fact, intellectual property is becoming an increasingly liquid asset. Some private investment funds, for instance, are acquiring portfolios of patents. See Jason Kirby, *Patent Troll or Producer? The Evolution of Intellectual Property*, FIN. POST, Jan. 14, 2006; *Voracious Venture*, ECONOMIST, Oct. 22, 2005. This spring a firm will hold what is believed to be the first live patent auction. See Don Clark, *Inventors See Promise in Large-Scale Public Patent Auctions*, WALL ST. J., March 9, 2006, at B1; Michael Orey, *A New Invention for Investors*, BUS. WEEK, Feb. 2, 2006. In short, "a secondary market is emerging for intellectual property acquired by individuals and corporations not involved in the original inventions." John Markoff, *Secretive Buyer of Some e-Commerce Patents Turns Out To Be Novell*, N.Y. TIMES, May 2, 2005, at C3.[5] In that secondary market, NPEs serve both as inves-

[5] Indeed, at least one observer has taken these developments to their logical (if perhaps impractical) conclusion and proposed that patents be securitized and traded publicly, just as real estate and mortgage debt now are. Elizabeth D. Ferrill, *Patent Investment Trusts: Let's Build a Pit to Catch the Patent Trolls*, 6 N. C. J. L. & TECH. 367 (2005).

tors and as intermediaries, ensuring that intellectual property is appropriately valued and that it comes to rest in the hands of those best able to use it.

C. The preceding discussion should show why the criticism of NPEs leveled by a number of *amici* is so misguided. Yahoo! Inc. ("Yahoo"), for example, criticizes so-called "patent trolls" for "engag[ing] in behaviors that will increase the *settlement* value of . . . patents without adding anything of *societal* value." Yahoo Br. 20. But creating "settlement value" for intellectual property is precisely why we have a patent system. Without strong patent protection—without, that is, the requirement, enforceable only through litigation or the threat of litigation, that one *purchase* rights to a patented invention before making, using, or selling it—there would be less incentive both to invent and to disclose inventions publicly. The "societal value" that Yahoo, other *amici*, and the district court have failed to see here is the innovation stimulated by a system that rigorously protects inventions, regardless of whether they are created by a large actor or a small one.

Petitioners and their *amici*—which for the most part are, or represent the interests of, enormous corporations with vast resources—complain about the supposed "unfair leverage" created by injunctions. *E.g.*, Bus. Software Alliance et al. Br. 9. Petitioners' *amici* insist that injunctions result in license fees far in excess of the patented invention's "actual value." *E.g.*, Am. Innovators' Alliance Br. 8. Petitioners' *amici*, however, offer no data to support their positions. In any case, the "actual value" of an invention is what it is worth to the parties bargaining over it, and the leverage created by an injunction is precisely the point. See, *e.g.*, *Smith Int'l, Inc.* v. *Hughes Tool Co.*, 718 F.2d 1573, 1578 (Fed. Cir. 1983) (explaining that, without an injunction, "[t]he patent owner would lack much of the 'leverage,' afforded by the right to exclude, to enjoy the full value of his invention in the marketplace"). The injunction forces the parties to settle based on

market factors such as the cost of a work-around or technological alternatives.

More generally, it is ludicrous to argue, as petitioners' *amici* do, that an injunction gives NPEs or independent inventors disproportionate advantage over infringing companies. In the absence of an injunction, a well-funded infringer either would not take a license from an independent inventor at all, or would do so on a playing field that vastly favored the infringer. Together with the ability to sell their inventions to those (like *amicus* Rembrandt) best situated to obtain value for them, it is the injunction that protects independent inventors' property rights against entities that otherwise have every incentive to infringe those rights. In the end, the complaints by petitioners and their *amici* are really nothing more than a raw demand to make infringement cheaper.

II. THE PURPOSES OF THE PATENT SYSTEM WOULD BE UNDERMINED IF COURTS DISCRIMINATED AGAINST PATENT-HOLDERS ON THE BASIS OF WHETHER THEY PRODUCE A PRODUCT

A. It is a basic feature of an economy based on freely transferable private property rights that the rights do not change their character depending on whose hands they are in. Our legal system does not, for example, withhold an injunction when one landowner builds a building that encroaches on another's land simply because the other owner is an absentee landlord, or is not himself developing the property at the time of the infringement, or is renting the land to someone else.

So too in the realm of intellectual property. Yahoo and other *amici* contend that a patent-holder should be able to obtain an injunction against infringers only if the patent-holder practices or exclusively licenses the patent. In such a regime, however, the patent right would be worth far less to NPEs like *amicus* Rembrandt. And, if that were true, then the

NPEs—which, as discussed above, function as investors and intermediaries in the market for intellectual property rights—would pay inventors far less for their patents, because the NPEs' own risks and costs would be unchanged. The result is that it would be far less profitable for independent inventors to invent, and the carefully crafted scheme of incentives created by the patent system to promote progress in science and useful arts would be undermined. As the Federal Circuit has explained: "Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research." *Smith Int'l*, 718 F.2d at 1578.

The illogic of imposing a unique penalty on NPEs becomes even clearer when one considers that ordinary companies that do make or sell products frequently litigate to enforce patents that they own but do not practice. It is not at all uncommon for a large company to create or acquire patents and then not practice them.[6] The patents, for example, may be unrelated to the company's core business but serve some kind of strategic function. Or—as often happens in science—a company may do research into a chemical compound or a technology with the expectation that it will have an important application in the company's business, and then discover that the real value of the compound or technology lies in a different application altogether. The company may rationally choose to patent its discovery and license the pat-

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[6] "[B]uying and selling patents is not new. . . . Some big companies, including International Business Machines Corp., began seeking license fees from others, turning patents into a profit center." Don Clark, *Inventors See Promise in Large-Scale Public Patent Auctions*, WALL ST. J., March 9, 2006, at B1, B6 (emphasis deleted).

ent rather than enter a new line of business to exploit the discovery.

Under Yahoo's test—which would turn on "the fundamental nature of the business entity," Yahoo Br. 20—a company litigating on a patent that it does not practice could obtain an injunction, provided it makes or sells *some* products. The logical implication is that, if some large producing company were simply to buy Rembrandt's patent portfolio and then litigate based on it, the large company would get an injunction, even though the exact same portfolio in Rembrandt's hands would be protected only with money damages. This nonsensical regime would penalize NPEs, and ultimately the inventors they invest in, purely for having chosen to concentrate exclusively on an activity—patent enforcement—that large diversified entities engage in on a regular basis.

Moreover, in many industries, the "first mover"—the first entity to bring a concept to market—gains a tremendous advantage over those who reach the market later. See, *e.g.*, Jonathan M. Barnett, *Private Protection of Patentable Goods*, 25 CARDOZO L. REV. 1251, 1257-1266 (2004). If the first mover is an infringer, it may create a barrier to later entry by others who, but for the disadvantage created by *not* being the first mover, would be profitable marketers of an invention under a license from the patent-holder. The very act of entering the market with an infringing product or service may cause other entities that *would* otherwise be practicing the invention not to do so, leaving non-using patent-holders as the only possible plaintiffs. For patent-holders that are the victims of infringement but are not expert in litigation, transferring their rights to an NPE may be the only practical way to receive value for their inventions. Yet, if the approach proposed by some of petitioners' *amici* prevails, non-use will be held against the plaintiff, and the very act of transferring the patent will make injunctive relief still less likely and therefore diminish the value of the patent, leaving

such patent-holders with *no* effective way to capture the full value of their patents.

Yet another difficulty with the approach of petitioners' *amici* is that the question whether a plaintiff is practicing a patented invention is by no means a straightforward one. It can be as difficult as its mirror image, the notoriously difficult question whether an unlicensed *defendant* is practicing – and hence infringing—a patent. Adding a test of the plaintiff's use can only make patent litigation even more complicated, contentious, and costly than it already is.

In the end, any attempt to implement the unrealistic suggestion of Yahoo and other *amici* that the courts first distinguish between "legitimate companies" and "trolls," and deny injunctive relief only to the latter, is certain to violate the law of unintended consequences. To impose a unique disability on one type of actor in a fluid economy is certain to create effects, upstream and downstream from those actors, that are both unwanted and unwarranted.

B. More generally, what Yahoo and other *amici* are really demanding is that non-users be subject to a regime of compulsory licensing, one in which infringement is permitted at a price determined by a court. In the terminology of the law-and-economics literature, they are proposing that patent rights (at least as regards NPEs) be protected with a "liability rule" rather than a "property rule." See Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

The problem is that such a regime would make infringement less expensive than it otherwise would be, which in turn diminishes the value of the patent right and therefore discourages, *ex ante*, both invention and commercialization. See, *e.g.*, F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 733-735 (2001) ("[T]he potential infringements induced by a li-

ability rule will discourage investments in the invention ex ante."); JOHN W. SCHLICHER, PATENT LAW, LEGAL AND ECONOMIC PRINCIPLES § 1:74.1 (2d ed. 2005) ("Unless the courts use the injunctive power to make a patent owner's rights exist in fact as well as in theory, the patent owner has less valuable rights to sell and an infringer will pay less for them.").

Moreover, any regime that does not award injunctive relief will generate more litigation, as companies find that it is more cost-effective to infringe, litigate, and pay whatever damages a court assesses than to buy a license, which is what an injunction forces (and the threat of an injunction encourages) the infringer to do. A regime of compulsory licensing is, almost by definition, a regime of routine infringement—and therefore routine litigation.[7]

Additionally, compulsory licensing requires that a court set the terms of the license, something private parties are in a far better position to do. As this Court recognized in a different context, "the best way to determine value is exposure to a market," not judicial guesswork. *Bank of Am. Nat'l Trust & Savings Ass'n* v. *203 N. LaSalle St. P'ship*, 526 U.S. 434, 457 (1999). That insight is just as true with respect to patent rights as with respect to other assets whose valuation is uncertain. As Judge Easterbrook, sitting by designation on a district court, explained:

> The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations—whether they end in a license at a particular royalty or in the exclusion of an infringer from the market—is much preferable to a ju-

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[7] Indeed, in those limited cases in which Congress has authorized compulsory patent licensing, see note 9 *infra*, litigation – or an equivalent, such as a series of administrative proceedings – is typically not only contemplated but required.

> dicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy.

In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig., 831 F. Supp. 1354, 1397 (N.D. Ill. 1993).

Private parties, unlike courts, are experts in the subject of the license and therefore tend to arrive at more accurate valuations. See Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293, 1295-1296 (1996). Attempting to educate a court, through the use of experts, about the industry and appropriate valuation ranges tends to entail significant costs. See *id.* at 1317. Privately negotiated licenses are also more flexible than court-imposed royalties. Under a private arrangement, for example, rates and other terms can easily and quickly be adjusted over time. See *id.* at 1299. And privately negotiated licenses are far better tailored than anything a court is likely to come up with. A voluntary agreement typically has a complex fee structure, inspection provisions, sharing arrangements, and a variety of other terms apart from a straight royalty rate. A court cannot possibly duplicate these arrangements and therefore will impose an inferior bargain. See Richard A. Epstein, *Takings, Commons, and Associations: Why the Telecommunications Act of 1996 Misfired*, 22 YALE J. REG. 315, 329-330 (2005).

Finally, it is not just royalty rates and license terms that are better set by market actors than by a court. The most basic term of a licensing agreement—*whom* the patent-holder chooses to license—will be controlled by the patent-holder if the patent-holder's property rights are respected, but not if a court, by denying an injunction, allows the infringer to practice the patented invention simply by paying royalties in an amount the court deems sufficient. The patent-holder, for example, may find that it can achieve the maximum value for

its patent by granting *exclusive* rights to one licensee willing to pay a premium for exclusivity. Yet, if another party can practice the invention simply by paying court-determined damages, the purported promise of exclusivity becomes less valuable and may even become completely meaningless.[8] The grant of a patent right is supposed to leave the patent-holder, not a court or an infringer itself, with the choice whether the patent will be licensed to one licensee or to many, and to a large products company, to a small start-up, to both, or to neither. It is far better for the owner of the property right to control how it is used than to be forced to give a license to anyone willing to endure litigation.[9]

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[8] MercExchange has pointed to evidence in the record that its licensee Autotrader conditioned royalty payments on MercExchange's halting eBay's infringement. JA 493-512.

[9] Congress has imposed compulsory licensing in narrow classes of cases presenting a strong countervailing public interest. See 28 U.S.C. § 1498 (allowing a patent owner to sue for reasonable and entire compensation in the Court of Federal Claims when the federal government manufactures or uses a patented invention without a license); 42 U.S.C. § 2183 (subjecting certain kinds of patents relating to nuclear energy to licensing by the Nuclear Regulatory Commission following notice to the patent-holder and a hearing); 7 U.S.C. § 2404 (subjecting certain plant varieties to a two-year compulsory license when the Secretary of Agriculture finds it "necessary in order to insure an adequate supply of fiber, food, or feed in this country," with the remuneration a reasonable royalty, or greater if litigation is necessary to collect). This case falls in no such category.

III. THE DISTRICT COURT, IN MAKING PATENT USE THE TOUCHSTONE OF THE EQUITABLE ANALYSIS, ABUSED ITS DISCRETION BECAUSE IT IGNORED PRECEDENTS OF THIS COURT THAT CONGRESS HAS INCORPORATED INTO THE INJUNCTION STATUTE

Petitioners and their supporters have used the decision below to erect an enormous straw man. The issue in this case is not whether there should be an "automatic," "near-automatic," or "mandatory" injunction rule. Rembrandt, like respondent, readily acknowledges that district courts have some discretion in deciding what relief to grant for patent infringement. Indeed, a fair-minded reading of the court of appeals' decision—especially against the backdrop of that court's prior decisions—confirms that the court below acknowledged the role of discretion as well.

Discretion, however, is not the same thing as unfettered decision-making. As this Court recently explained: "Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Martin* v. *Franklin Capital Corp.*, 126 S. Ct. 704, 710 (2005). The question in this case is not whether the district courts have discretion but what legal standards inform and limit that discretion.

A. A crucial, well-settled standard is that the way in which a patent-holder chooses to exploit his invention—or not exploit it—is not a factor weighing for or against injunctive relief for infringement. As Judge Bryson's opinion for the court of appeals correctly explained: "Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well." Pet. App. 27a.

Above we have shown that this rule follows from sound economic principles. We now show that the rule, after being articulated in *Continental Paper Bag* and repeatedly reaffirmed by this Court, was ratified by Congress when it enacted 35 U.S.C. § 283 and its predecessors. Whatever discretion is conferred by 35 U.S.C. § 283, therefore, is cabined by the *Continental Paper Bag* rule.

1. *Continental Paper Bag* holds that, under the predecessor to 35 U.S.C. § 283,[10] one who is not using his patent is no less entitled to injunctive relief than one who is. (By "using," the Court's opinion meant *either* practicing or licensing. See 210 U.S. at 427-428.) The decision has been repeatedly reaffirmed. See *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 432-433 & n.25 (1945); *Special Equip. Co.* v. *Coe*, 324 U.S. 370, 378-379 (1945); *Woodbridge* v. *United States*, 263 U.S. 50, 55-56 (1923); see also *Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U.S. 24, 34-35 (1923). As some of petitioners' *amici* note, the Court in *Continental Paper Bag* took care to stop short of holding that a court of equity must *always* issue an injunction in a case of infringement. But petitioners misleadingly suggest that *Continental Paper Bag* left open the possibility that injunctive relief could be denied specifically because the patent-holder does not practice the invention. Pet. Br. 43; see also Yahoo Br. 19-20 (implying that the case paves the way for an analy-

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[10] The injunction statute in force at the time of *Continental Paper Bag* is not materially different from the modern text, which was adopted in 1952. In 1908, the statute read:

> The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent . . . .

Act of Mar. 3, 1897, ch. 391, § 6, 29 Stat. 692, 694. The 1952 version—the current one—was designed to be "the same" as this provision "with minor changes in language." See p. 22, *infra*.

sis that discriminates between NPEs and "legitimate" companies).

The decision does no such thing. First of all, it makes clear that an injunction is the preferred remedy for infringement, without regard to use: "exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." 210 U.S. at 429. Moreover, entirely missing from the description of *Continental Paper Bag* delivered by petitioners and their *amici* is the Court's review of a set of possible reasons for non-use that *were conceded to have no effect on the availability of injunctive relief.* The Court observed: "[the defendant's] counsel concedes indulgence to a nonuse which is 'nonchargeable to the owner of the patent'—as lack of means, or lack of ability or opportunity to put the patent to use." *Id.* at 422. In other words, in *Continental Paper Bag*, the Court *and the infringer* took it for granted that a patent-owner without the funds, know-how, or access to commercialize the invention *is no less entitled to an injunction than someone actively practicing the patent.*

Continental Paper Bag, far from leaving open the question whether a non-practicing patent-holder is presumptively entitled to injunctive relief, illustrates that the case of the independent inventor who needs an injunction to protect his rights—the precise type of party whose interests are aligned with and furthered by NPEs—was well known to the law long before that decision issued. The case creates absolutely no basis for denying injunctive relief to NPEs simply because they and their predecessors-in-interest do not practice the patents that they enforce.

2. This Court should not overrule *Continental Paper Bag*. Not only, as we show above, is the decision supported by sound economic principles, but Congress has ratified the decision. In general, "[c]onsiderations of *stare decisis* have

special force in the area of statutory interpretation" because Congress remains free to overrule the Court's decisions. *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 172-73 (1989). In this case, however, Congress' treatment of the precedent in question drives considerations of *stare decisis* to their absolute apex.

When Congress reenacts a statute that has "been given a consistent judicial interpretation," the reenactment "generally includes the settled judicial interpretation." *Pierce* v. *Underwood*, 487 U.S. 552, 567 (1988) (citing *Lorillard* v. *Pons*, 434 U.S. 575, 580-81 (1978)); accord *Keene Corp.* v. *United States*, 508 U.S. 200, 212 (1993); see also *Granholm* v. *Heald*, 125 S. Ct. 1885, 1910-1911 (2005) (Thomas, J., dissenting); *Faragher* v. *City of Boca Raton*, 524 U.S. 775, 792, 804 n.4 (1998). The presumption is especially applicable "where Congress was aware of or made reference to that judicial construction." *Metro. Stevedore Co.* v. *Rambo*, 515 U.S. 291, 299 (1995); see also *Lindahl* v. *Office of Pers. Mgmt.*, 470 U.S. 768, 782-83 (1985); cf. *Brown* v. *Gardner*, 513 U.S. 115, 121 (1994) (finding reenactment principle inapplicable because "the record of congressional discussion preceding reenactment makes no reference to" the administrative interpretation in question, "and there is no other evidence to suggest that Congress was even aware of the [agency]'s interpretive position").

Moreover, this Court will afford additional deference to administrative or judicial interpretations of a statute when there is ample evidence—usually in the form of hearings and rejected proposals—of acquiescence in the interpretation. See *Solid Waste Agency of N. Cook County* v. *U.S. Army Corps of Engineers*, 531 U.S. 159, 169-170 & n.5 (2001); *FDA* v. *Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 144-159 (2000) (extensive review of legislative history, including bills that were considered and rejected, to demonstrate that Congress had ratified an agency's interpretation of a statute); *Bob Jones Univ.* v. *United States*, 461 U.S. 574, 599-602

(1983); see also *Dep't of the Interior* v. *Klamath Water Users P. otective Ass'n*, 532 U.S. 1, 16 n.7 (2001) (finding support for an interpretation in the fact that Congress twice considered, and rejected, a different approach).

All of these principles compel the conclusion that a district court, in deciding whether to issue an injunction for patent infringement, must be faithful to *Continental Paper Bag* and its progeny. First of all, Congress three times since 1908 has reenacted the injunction provision with identical or substantially similar language—once in 1922, again in 1946, and most recently in 1952. See 35 U.S.C.A. § 283 (West 2006). The first two reenactments left the statute identical in relevant respects to the version in effect in 1908. See Act of Aug. 1, 1946, Pub. L. No. 79-587, ch. 726, 60 Stat. 778; Act of Feb. 18, 1922, Pub. L. No. 67-147, ch. 58, § 8, 42 Stat. 389, 392. In 1952, Congress comprehensively recodified the patent statutes. Section 283, the injunction provision, was part of that effort; it was supposed to be the "same" as its predecessor "with minor changes in language." S. REP. NO. 82-1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2422-2423. During this same period, this Court alone reaffirmed *Continental Paper Bag* at least three times. See p. 19, *supra*. Because the case and its progeny authoritatively construe the relevant versions of the injunction statute, they must be understood as included in each of the three reenactments.

Moreover, as a study commissioned by the Senate Judiciary Committee's Subcommittee on Patents, Trademarks, and Copyrights ("Patents Subcommittee") observed in 1956: "Ever since the Paper Bag decision in 1908, permitting a patentee to enforce his patent even though he was not himself using the invention, recurrent compulsory licensing proposals have been presented to Congress." PATENTS SUBCOMM., 85TH CONG., COMPULSORY LICENSING OF PATENTS—A LEGISLATIVE HISTORY III (Comm. Print 1958) (hereinafter COMPULSORY LICENSING). Indeed, bills to implement compulsory licensing for non-users were introduced—and went no-

where—at least *twenty-three times* between *Continental Paper Bag* and 1952. See *id.* at 2-15 (cataloguing failed proposals in 1911, 1912, 1913, 1914, 1915, 1921, 1922, 1926, 1927, 1929, 1931, 1933, 1935, 1938, 1942, and 1950).[11]

Throughout this period, usually in connection with failed proposals, Congress conducted detailed examinations of the subject of compulsory licensing. In 1912, the House Committee on Patents divided over whether to report favorably on a compulsory licensing bill. The majority was in favor because it was concerned that there was a common practice of "suppressing patents"—in other words, buying them up and not using them. The majority's prime illustration was *Continental Paper Bag*: "The best known instance in the reports of suppression of a patent to prevent competition is the so-called Paper Bag Patent." H.R. REP. NO. 62-1161, at 5 (1912).

The committee minority, however, won the day—no further action was taken on the bill—and the arguments it advanced are just as compelling today. The minority complained that the majority's views were not supported by

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[11] The bills included H.R. 8776, 62d Cong. (1911); S. 2116, 62d Cong. (1911); H.R. 23193, 62d Cong. (1912); S. 6273, 62d Cong. (1912); H.R. 23417, 62d Cong. (1912); H.R. 1700, 63d Cong. (1913); H.R. 15989, 63d Cong. (1914); H.R. 19188, 63d Cong. (1914); H.R. 3054, 64th Cong. (1915); H.R. 3082, 64th Cong. (1915); S. 1838, 67th Cong. (1921); S. 3325, 67th Cong. (1922); S. 3410, 67th Cong. (1922); S. 3474, 69th Cong. (1926); S. 705, 70th Cong. (1927); S. 203, 71st Cong. (1929); S. 22, 72d Cong. (1931); S. 290, 73d Cong. (1933); S. 383, 74th Cong. (1935); H.R. 9259, 75th Cong. (1938); H.R. 10068, 75th Cong. (1938); S. 2491, 77th Cong. (1942); H.R. 9304, 81st Cong. (1950).

Three of the bills—H.R. 8776, 62d Cong. (1911); S. 2116, 62d Cong. (1911); and H.R. 9259, 75th Cong. (1938)—would have implemented compulsory licensing across the board, and not merely in cases of non-use.

the twenty-seven public hearings that had been held on the legislation, in which the overwhelming majority of the witnesses (including Thomas Edison) registered opposition to any kind of compulsory licensing. H.R. REP. NO. 62-1161, Pt. 2, at 5-6 (1913) (hereinafter Minority Report); see also COMPULSORY LICENSING 3-5. The minority contended that there was no real problem of patent suppression: "[*Continental Paper Bag*] is in fact the only instance [of patent suppression] which the majority has succeeded in citing." Minority Report 4.

The minority also argued that "the compulsory-license laws would reduce the value of patents, and would therefore, at least to some extent, reduce the encouragement now held out to invention and industrial development." It argued that determining whether the plaintiff is using the invention would be as complex and difficult as determining infringement and would therefore greatly increase litigation costs. And it argued that courts are ill suited to making and adjusting royalty determinations, and that the extra proceedings contemplated by the legislation would confer a "great advantage" on "the large corporations equipped with their great resources to stand the expense and meet the difficulties involved." Minority Report 6-8.

The following year, the Committee on Patents considered a compulsory licensing bill nearly identical to the one reported in 1912. The committee again held hearings—in which witnesses again generally opposed compulsory licensing—and again unsuccessfully recommended the bill. See COMPULSORY LICENSING 6; H.R. REP. NO. 63-1082 (1914). In 1921 and 1922, bills were introduced that would have provided for compulsory licensing in cases of non-use. The Senate Committee on Patents held hearings, but no further action was taken. COMPULSORY LICENSING 7.

In 1938, bills that would have implemented across-the-board compulsory licensing were introduced. Once again,

extensive hearings were held—this time before the Subcommittee on Compulsory Licensing of the House Committee on Patents—and once again there was near-unanimous opposition to the legislation. See COMPULSORY LICENSING 9-11. One of the major arguments was that the bill would have hurt small business, which would be forced to license patents to large corporations with greater resources. *Id.* at 10.

Three years later, Congress held extensive hearings to investigate the concentration of industrial power. The resulting report and recommendation, which included some discussion of patents, advocated "legislation [making] any future patent . . . available for use by anyone who is willing to pay a fair price for the privilege." TEMPORARY NAT'L ECON. COMM., FINAL REPORT AND RECOMMENDATION, S. DOC. NO. 77-35, at 36 (1st Sess. 1941). That proposal, too, was never adopted.

Finally, when Congress undertook the comprehensive revision of the patent laws that culminated in the 1952 recodification, it considered—but rejected—a proposal for compulsory licensing. See *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 n.21 (1980).

The issue of compulsory licensing did not entirely disappear, however. Congress thoroughly studied the issue in the 1950s and ultimately decided to do nothing about it. A 1956 report of the Patents Subcommittee entitled "Review of the American Patent System" described compulsory patent licensing as "one of the most controversial subjects in the patent field." S. REP. NO. 84-1464, at 11 (1956). A 1957 study, citing *Continental Paper Bag* for the proposition that "[t]he present patent grant imposes no duty on its owner to bring the invention into use," advocated compulsory licensing but noted the difficulty of determining a reasonable royalty. PATENTS SUBCOMM., PROPOSALS FOR IMPROVING THE PATENT SYSTEM, S. DOC. NO. 85-21, at 17 & n.47, 27-28 (1st Sess. 1957). Another 1957 study discussed *Continental Pa-*

per Bag and *Special Equipment Co.*,[12] argued that the supposed connection between injunctive relief and the suppression of invention is a myth, and opposed compulsory licensing of any kind because it would destroy the value of patent rights and impair newcomers' and small manufacturers' incentives for invention, competition, and development. PATENTS SUBCOMM., THE PATENT SYSTEM AND THE MODERN ECONOMY, S. DOC. NO. 85-22, at 28-33 & nn.108, 109 (1st Sess. 1957). A 1958 study analyzed the issue from the standpoint of economics, but did not issue a recommendation either way. PATENTS SUBCOMM., 85TH CONG., AN ECONOMIC REVIEW OF THE PATENT SYSTEM 13-14, 73-74 (Comm. Print 1958).

Taken together, the reports, hearings, and failed legislation furnish "overwhelming evidence," *Solid Waste Agency of N. Cook County* v. *U.S. Army Corps of Engineers*, 531 U.S. 159, 170 n.5 (2001), that (a) Congress was aware of *Continental Paper Bag*, (b) some Members were dissatisfied with the decision, but (c) throughout roughly the first half of the last century, the legislature never saw fit to disturb this Court's construction of the injunction provision even as it repeatedly reenacted the statute.[13] Cf. *FDA* v. *Brown & Wil-*

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[12] *Special Equip. Co.* v. *Coe*, 324 U.S. 370 (1945). Petitioners (Br. 42 n.14) and several of their *amici* cite with approval Justice Douglas's dissent in that case. Justice Douglas urged the principles that were followed by the district court in this case, but those are the same principles that Congress and this Court have repeatedly rejected.

[13] The pattern continues to the present day. Only last year, the House Judiciary Committee considered but rejected a proposal to direct judges to take use into account in determining whether to grant an injunction. See *Committee Print Regarding Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intell. Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005). Although a version of the proposed legislation re-

liamson Tobacco Corp., 529 U.S. 120, 144-159 (2000); *Bob Jones Univ. v. United States*, 461 U.S. 574, 599-602 (1983).

Accordingly, it is far too late in history to argue that 35 U.S.C. § 283 permits a district court judge to deny injunctive relief because the patentee does not practice its invention.

3. If, despite all this, the Court for some reason now questions *Continental Paper Bag*, this case should not be used as an occasion to overrule it. MercExchange's attempts to practice its patents in the marketplace, as well as eBay's own evidence claiming a cheap way to "work around" the patents, make this case a particularly poor vehicle for demonstrating any difficulties with the *Continental Paper Bag* rule. Cf. *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 173-174 (reviewing criteria for overruling a statutory decision). The *amicus* brief of the intellectual property professors submitted in support of the petition for certiorari, for instance, attempts to show that the traditional presumption in favor of injunctions is unworkable, but it relies on hypothetical examples far removed from the facts of this case. Indeed, the brief actually confesses that the professors have no "opinion on how the application of the traditional equitable factors would actually come out in this case." Lemley et al. Cert.-Stage Br. 6. It would be an unwise departure from judicial restraint to assess how strong the presumption in favor of injunctions should be in the abstract, let alone to consider overruling firmly rooted statutory decisions of this Court, based on the facts of cases other than this one.

B. The court of appeals correctly held that the district court abused its discretion. In denying MercExchange an injunction because it seeks to license rather than practice its inventions, the district court ran afoul of *Continental Paper Bag*, which leaves no room for such distinctions.

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mains pending, the relevant section no longer directs judges to take use into account. See H.R. 2795, 109th Cong. § 7 (2005).

The district court believed that MercExchange would suffer little harm without an injunction because the company "exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." Pet. App. 58a. But the same could be said of independent inventors, corporations like Qualcomm, and the technology transfer programs at research universities. They, too, exist to license their inventions—and to sue when necessary to enforce their rights. But it is hardly true that they would suffer no harm if a district court denied them injunctive relief for infringement. Unless an injunction is available and both parties know it, licensing negotiations would end in litigation and a compulsory license whenever the potential licensee decides that it does not like the potential licensor's price. For all the reasons discussed above, the market, not a court, should be allowed to determine the royalty rates and terms.

The district court also believed that "the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." Pet. App. 57a. Not only does this mischaracterize the realities of this case—MercExchange, like NPEs, seeks to license its intellectual property, not hide it from the world—it fundamentally misconceives the nature and function of the patent system. As this Court has explained, describing the *Continental Paper Bag* decision:

> *[T]he benefit which the government intended to secure* [with the patent grant] *was not the making or use of the patent for the benefit of the public during the 17 years of the grant*, except as the patentee might voluntarily confer it from motives of gain, *but only the benefit of its public use after the grant expired.*

Crown Die & Tool Co. v. *Nye Tool & Machine Works*, 261 U.S. 24, 34-35 (1923) (emphasis added). Like so many of petitioners' *amici*, the district court failed to appreciate that the public benefits from an inventor's disclosure whether or

not the inventor immediately implements the invention. In fact, as a general matter, there is no reason to believe that, without the patentee's disclosure, the invention would have been known to the defendant before the expiration of the patent term.

Because the district court violated basic principles of patent protection set forth in *Continental Paper Bag* and effectively approved by Congress as part of the injunction statute, the court's decision was an abuse of discretion. The court of appeals was correct to reverse it.

IV. THE ATTACKS ON NON-PRACTICING ENTITIES LEVELED BY PETITIONERS AND THEIR *AMICI* ARE REALLY A CALL TO LEGISLATE ON ISSUES NOT PRESENTED BY THIS CASE

Petitioners and their *amici* level a number of criticisms at NPEs and the patent system generally that are not appropriate for judicial resolution and, even if they were, concern issues not presented by this case. Petitioners and their *amici* are concerned by what they say are vague or low-quality patents, as well as by the supposed difficulty of knowing whether a product or service will infringe any patents. But this is not a case about patent validity or infringement. eBay has been adjudicated a willful infringer of MercExchange's valid patents, and those findings are not challenged here. This is a case about remedies. The courts and the patent office have many tools for dealing with patents that are asserted to fall short of the statutory standards for patentability, but tinkering with the remedy is not—and never should be—one of them. This Court should resist the call to use this case as an excuse to fix supposed problems that the case does not even present. More generally, policy-based complaints about any systemic problems with the quality or scope of patents ought to be addressed to the Executive or Legislative Branch, not this Court.

Similar considerations dispose of the policy arguments of petitioners' *amici* about the complexity and interconnectedness of products and services and the supposed accompanying potential for "hold-up." Here, eBay has long had notice of MercExchange's patents, has had every opportunity either to take a license to them or "design around" them, and has claimed that a "work-around" would cost only $8,000. Thus the arguments about the difficulty of reengineering ring utterly hollow on the facts before the Court. Petitioners' *amici* also complain that NPEs, unlike practicing enterprises, are not subject to the inhibiting effect of the threat of a counter-suit. This, too, is a naked policy argument of the kind best addressed to the legislature. The presumption in favor of injunctions in the patent context, as in real property law, has never turned on so-called "mutually assured destruction."

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

On Writ Of
Certiorari To The United States
Court Of Appeals For The Federal Circuit

BRIEF OF RESEARCH IN MOTION, LTD. AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST OF AMICUS CURIAE

Research In Motion, Ltd. ("RIM") respectfully submits this brief as amicus curiae in support of Petitioners pursuant to Supreme Court Rule 37.2(a). Both Petitioners and Respondents have filed written consent to the filing of amicus briefs with this Court.[1]

RIM is a technology company serving business and government customers worldwide through its unique BlackBerry wireless email and data access system. In the United States, more than 3.2 million individuals depend upon the versatility, reliability and security of the BlackBerry system for both routine and urgent communications. This includes a substantial number of federal, state and local government personnel, government contractors and subcontractors and individuals who play key roles in the operation and maintenance of the nation's critical infrastructure and essential industries.

RIM's interests, as well as the interests of its customers and business partners, are directly impacted by this case. The complexities of wireless communication mean that RIM's products, like those of other companies in the telecom and technology industries, require licenses under hundreds of patents. Within these industries, the mutual requirement for patents covering a number of different types of technology and the prospect of potential counterclaims, places natural restraints on industry participants' use of patents and the positions that they advocate in negotiations. Indeed, several organizations formed to develop the wireless communication protocols necessary to enable communication across cellular

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[1] Pursuant to Supreme Court Rule 37.6, *amicus curiae* RIM states that counsel for the parties have not authored any portion of this brief, nor has any person or entity other than *amicus* itself made any financial contribution to the preparation or submission of this brief.

networks require that their members agree to license essential patents on fair, reasonable and non-discriminatory terms.

RIM has more than a dozen patent license agreements in place with both large and small patent owners. Through these agreements, RIM licenses hundreds of patents required to make and use the BlackBerry system. There is, however, a new industry being built on the revenues of the telecom industry and on those of other industries like it. Ever growing numbers of companies are acquiring patent portfolios and using these patent portfolios to extract royalties from existing products and services. These patent assertion companies do not use their patents and know-how to make new products or services available to the public or to improve those products and services already available. Their sole activity is to identify existing products or services in the marketplace against which they can assert their patents. Unlike industry participants, they have no natural constraints on their activities or demands. Patent assertion companies use the threat of injunction to extract not an amount reflecting the value of their patented invention as used in the product or service, but the value to a company of being able to continue to use or sell the infringing product or service—which in many instances means the amount a company is prepared to pay to remain in business. Because patent assertion companies do nothing to introduce or improve products or services, they can never face this threat themselves and have no incentive to limit their demands to an amount that reflects the value of their patented invention.

RIM's BlackBerry system is currently in litigation and is being threatened by an injunction sought by a patent assertion company.[2] As in the instant case, the patent claims

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[2]On January 23, 2006, the Court denied RIM's petition for a writ of certiorari in Case No. 05-763. The question presented related to applicability of "use" infringement under 35 U.S.C. Section 271(a) to the transnational BlackBerry system, whose Network Control Center, the

(continued . . .)

asserted against RIM have been rejected by the Patent and Trademark Office in reexamination proceedings.[3] Even a concession by the patent assertion company that the PTO is likely to fully and finally invalidate all its patent claims in these proceedings has had no effect on its disproportionate and publicly disclosed demands. As explained below, RIM believes that this is a direct result of the patent assertion company's ability to threaten RIM with an injunction and its assessment of the potential impact of this threat on RIM's ongoing business—not the actual and reasonable value of its patented invention.

SUMMARY OF THE ARGUMENT

The U.S. Constitution authorizes Congress to "promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." U.S. CONST. art. I, §8, cl. 8. Patent laws, including their remedies, are subject to these constitutional limitations.

The plain language of Section 283 of the Patent Act provides that injunctive relief (unlike monetary damages) is a discretionary remedy that may be accorded to patent owners only upon consideration of the equities of a particular case. These familiar equitable principles are irreparable injury (adequacy of remedy at law), balancing of hardships

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(. . . continued)
heart and brains of the system, is located at the company's corporate headquarters in Ontario, Canada.

[3]A panel of senior patent examiners at the PTO has issued a First Office Action for the '592 patent and Second Office Actions for all remaining patents in suit, with each office action rejecting all of the claims in each of these patents on multiple grounds. Indeed, one of the bases for rejection of the claims in the '592 patent was that they were anticipated by a RIM patent, and in each of the Second Office Actions, the PTO found the patentee's arguments during reexamination to be "non-persuasive." The PTO has indicated that it will issue Final Office Actions rejecting these patents no later than the end of March 2006.

and the public interest. In the decision below, however, the Federal Circuit has placed in doubt the application of the traditional standard for injunctive relief. Extrapolating from an inapt analogy to tangible property rights,[4] the Federal Circuit's decision suggests that courts should consider less than the full equitable analysis suggested by Section 283. The truncated consideration of the equitable factors suggested by the Federal Circuit's decision is not only inconsistent with the requirements of Section 283 and its legislative history, but improperly conflates the concept of the exclusive "right" with the nature of the "remedy."

The analogy between patents and tangible property, despite its long history at the Federal Circuit and this Court, should not control availability of the patent infringement remedy. Section 261 tempers the statement that "patents shall have the attributes of personal property" by making it "subject to the provisions of this title." 35 U.S.C. §261. Thus, although patents are intangible *personal* property, Section 283's requirement of consideration of the principles of equity takes priority over any contrary attributes of personal property.

Even without this explicit prioritization, there is no legal doctrine that makes injunctions routinely available to property owners without a full equitable analysis.[5] Injunctions have long been considered exceptional remedies granted only where other remedies are inadequate. In many circumstances, the nature of the business of a patentee is

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[4] *See MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) ("Because the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been found") (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)).

[5] *See, e.g., New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) (rejecting an automatic injunction rule in copyright cases).

such that an injunction may well be the only adequate remedy and the patentee may suffer irreparable harm if an injunction is not granted. The availability of remedies at law and the likelihood of irreparable harm to the patentee, however, are factors required to be taken into account as part of the traditional test for injunctive relief. The fact that the outcome of the traditional analysis in the patent context may often result in the issuance of an injunction does not justify truncating the full equitable analysis expressly required by Section 283.

If left in place, the Federal Circuit's analytical framework for determining the availability of injunctive relief carries ramifications for today's technology-based economy far beyond the facts in MercExchange's case for an injunction against eBay. If the patent laws in general, and the permanent injunction remedy in particular, are in fact to serve the Constitutional purpose of promoting the "useful arts," the scope of the factors that they are required to consider in the exercise of their discretion to grant injunctions must be sufficiently broad to assess the real equities of each case.

ARGUMENT

I.

THE ENFORCEMENT OF PATENTS MUST PROMOTE THE USEFUL ARTS.

The federal power to grant patents stems from the provision in the Constitution authorizing Congress to "promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." U.S. CONST. art. I, §8, cl. 8. This Court has emphasized that the patent clause "is both a grant of power and a limitation." *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966). As such, neither Congress nor the courts may

"enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby." *See id.* at 6. Nor may they "authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available." *Id.* Equitable remedies for patent infringement, and the circumstances for their availability, must be considered in the context of the Constitutional objectives of patent law.

In reaching its decision below, the Federal Circuit suggested that the general availability of permanent injunctive relief for patent infringement stems from the fact that a patent is property. *See MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005). This link is not supported by the Constitution, the patent statute, or its legislative history. Although the first three patent acts adopted by Congress granted inventors the exclusive *right* to their inventions, they did not include injunctions within the panoply of *remedies* that the courts could use to enforce that right. Rather, the original Patent Act of 1790 authorized damages and the forfeiture of infringing articles. Patent Act of 1790, ch. 7, 1 Stat. 109, 111; *see Root v. Railway Co.*, 105 U.S. 189, 191 (1881). The Patent Acts of 1793 and 1800 revised the measure of damages, but again made no mention of injunctive relief. *See* Patent Act of 1793, ch. 11, 1 Stat. 318–323; Patent Act of 1800, ch. 25, 2 Stat. 37–38. It was not until the Patent Act of 1819 that Congress authorized (but did not require) courts to administer injunctive relief "according to the course and principles of courts of equity" and "on such terms and conditions as the said courts may deem fit and reasonable . . . ." Patent Act of 1819, ch. 19, 3 Stat. 481–82; *see also Root*, 105 U.S. at 192.

The language of the 1819 Patent Act permitting issuance of injunctions "according to the course and principles of courts of equity" has remained relatively constant through modern times. Section 283 of the current Patent Act provides that:

> The several courts having jurisdiction of cases under this title *may grant injunctions in accordance with the principles of equity* to prevent the violation of any right secured by patent, *on such terms as the court deems reasonable.* (35 U.S.C. §283 (emphases added))

Under the plain language of this provision, injunctions (unlike damages) are a discretionary remedy for patent infringement that courts may grant only if doing so accords with the principles of equity under the unique facts of each case.

II.

INJUNCTIONS AGAINST PATENT INFRINGEMENT MUST BE ISSUED IN ACCORDANCE WITH EQUITABLE PRINCIPLES DEPENDING UPON THE CIRCUMSTANCES OF EACH CASE.

The "principles of equity" that Section 283 requires for injunctive relief are well-settled. This Court has itself stressed that an injunction "is not a remedy which issues as of course." *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311 (1982) (quoting *City of Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337–38 (1933)). Rather, injunctions are drastic remedies reserved for instances in which both irreparable harm and the inadequacy of other legal remedies are shown. 456 U.S. at 312 (citing cases). As such, in other contexts, the Federal Circuit has stated that permanent injunctions are appropriate only where a plaintiff has succeeded on the merits and shows that it will suffer irreparable harm without an injunction, that the balance of hardships tips in the movant's favor and that an injunction will serve the public interest. *See, e.g., PGBA, LLC v. United States*, 389 F.3d 1219, 1227 (Fed. Cir. 2004); *see also Amoco*

Prod. Co. v. Village of Gambell, Alaska, 480 U.S. 531, 546 n.12 (1987).

Indeed, in a patent case decided twenty years ago, the Federal Circuit itself affirmed that "[w]hether an injunction should issue . . . [and] what form it should take, certainly depends on the equities of the case." *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865–66 (Fed. Cir. 1984) (remanding case for trial court "to consider what [the public] interest is and what measures it calls for").[6] In *Roche*, the Federal Circuit specifically found that the Roche litigants were "*mistaken in their apparent belief that once infringement is established and adjudicated, an injunction must follow.*" *Id.* at 866 (emphasis added). The *Roche* court said:

> The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mold each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it. The qualities of mercy and practicality have made equity the instrument for nice adjustment and reconciliation between the public interest and private needs as well as between competing private claims. (*Id.* at 866–67 (quoting *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944)))

In the decision below, the Federal Circuit suggests that district courts still retain discretion to deny equitable relief. *MercExchange v. eBay*, 401 F.3d at 1338 ("a court may decline to enter an injunction when 'a patentee's failure to practice the patented invention frustrates an important public need for the invention . . .'") (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)). The Federal Circuit's analysis appears, however, to have narrowed

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[6] *Roche* was superseded in part on other grounds by 35 U.S.C. Section 270 (1984), but was not overturned in this regard in the decision below.

the scope of factors a court is permitted to take into account in exercising its discretion *not* to grant an injunction. The Federal Circuit has thus at least created significant uncertainty regarding the trial courts' discretion and scope of relevant factors in the application of equitable principles mandated by the Patent Act.

The Federal Circuit's reasoning appears to be that the characterization of patents as property in and of itself limits the equitable factors to be considered in the exercise of discretion under Section 283, reasoning adopted by *amici* American Intellectual Property Law Association and Federal Bar Association. In doing so, the Federal Circuit and *amici* improperly conflate the *right* conferred by the Patent Act with the *remedy* of an injunction. Right and remedy are distinct concepts and—as demonstrated by the lack of any injunctive option in the first three versions of the Patent Act—the right to exclude need not coincide with the remedy of injunctive relief.

Indeed, Section 261 of the Patent Act states that "[s]ubject to the provisions of this title, patents shall have the attributes of personal property." 35 U.S.C. §261. The phrase "[s]ubject to the provisions of this title" makes it clear that the attributes of patents as personal property are subject to the discretion vested by Section 283 in district courts to either grant or deny injunctive relief based on traditional equitable factors, including irreparable harm and the availability of an adequate remedy at law. *Cf. New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) (rejecting an automatic injunction rule in copyright cases).[7]

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[7]Patent rights differ from property rights because they can be infringed without any knowledge that the patent exists—such as where an entity develops the invention independently. Even with knowledge of a patent, there is no certainty as to its scope until the patent is finally interpreted by the courts, a process that is less than predictable. *See* Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?* 9 LEWIS & CLARK L. REV. 231 (2005). Thus, as

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As a general matter, remedies are tailored to the circumstances of the wronged party. *See, e.g., Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983) ("Injunctions and damages must be tailored to the circumstances and be correlatively determined"); *Dopp v. HTP Corp.*, 947 F.2d 506, 517 (1st Cir. 1991) ("[A] plaintiff who is injured by reason of a defendant's behavior is, for the most part, entitled to be made whole—not to be enriched"). They are not determined by the nature of the right breached *per se*, but rather by the nature of the damage, which in turn depends on the specific circumstances of the owner and its use of the right.[8] Injunctive relief is extraordinary and is available only where remedies at law are inadequate. *Weinberger*, 456 U.S. at 311-12 (citing cases).

There is nothing inherent in intangible property rights that renders the harm from infringement irreparable or damages an inadequate remedy *per se*. That stretches the analogy with tangible property too far; unlike tangible property, patents have no inherent physical limitations on the extent of their use and, in general, use by one person does not impact availability for use by others. In other words, unlike a car or

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explained further below, patent assertion companies can lie in wait while entrepreneurs take the risks and expend the effort inherent in building a successful company. The equities in this situation are considerably different from an intentional encroachment on land or other tangible property with clearly defined boundaries

Moreover, to the extent the real property analogy is relevant, courts have held that real property owners are not entitled to injunctive relief where concerns similar to those associated with patent assertion companies have been identified. For example, courts have refused injunctions against encroachment to real property where the hardships tip in the defendants' favor. *See Miller v. Johnston*, 270 Cal. App. 2d 289, 307–08, 75 Cal. Rptr. 699, 710–11 (1969); *Riter v. Keokuk Electro-Metals Co.*, 248 Iowa 710, 726–28, 82 N.W.2d 151, 161–62 (1957).

[8] *See, e.g., Miller*, 270 Cal. App. 2d at 307-08, 75 Cal. Rptr. at 710–11 (landowner did not suffer irreparable harm from continuing trespass over land because land in question was being used for a driveway).

house, multiple parties can use the same innovation simultaneously—often without even being aware they are doing so. These differences can have significant implications with regard to the adequacy of monetary relief.

Where a patentee practices the invention covered by its patent, or its business depends on its ability to provide its partners the exclusive right to practice the invention, the ability of a competitor to continue using the invention in the patent may reduce or eliminate the patentee's market—and an injunction may be the only remedy capable of preventing irreparable harm. This is the traditional use of patents, and hence it is not surprising that in such circumstances, where patent infringement has been found, courts have granted injunctions.

Where a patentee's sole business is to license the invention in its patent to as many companies as possible, however, an infringer's continued use of the patent does not detract from the patent owner's market or the value of the patent to the patent owner. Any dampening effect on the willingness to take licenses under patents infringed by others is overcome by the patent statute's requirement that an infringer compensate the patent owner by an amount no less than a reasonable royalty rate and the availability of enhanced damages. 35 U.S.C. §283.[9] Damages are an

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[9]Dire predictions that without the threat of an injunction patentees will be unable to license their inventions absent a lawsuit are simply unsupportable. In the wireless telecommunications industry, for example, products and services often implicate hundreds of patents. Most industry participants—like RIM—will receive several assertion letters each year. It makes no sense for a business to expend the time, expense and media exposure inherent in multiple lawsuits if it is able to obtain a license on fair and reasonable terms for the patents it requires. The likelihood is far greater that technology companies will license questionable patents in order to avoid litigation, even without the threat of an injunction.

In fact, as discussed earlier, several organizations formed to develop wireless communication protocols require that their members agree to license essential patents on fair, reasonable and non-discriminatory terms—and preclude participants from seeking an

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adequate remedy and the patentee will not suffer irreparable harm merely from the ongoing use by others. To the contrary, the simultaneous use of its patents by multiple companies is the crux of a patent assertion company's business. While the nature of the right is the same in both instances, the nature of the remedy required to address the injury is simply different.

Because the Federal Circuit's opinion can be read to limit the trial court's discretion and truncate the traditional equitable injunction analysis based on the patent infringement remedy flowing from the patent's "property" right, patent assertion companies will be placed in a position to use the threat of an injunction to obtain payment that far exceeds the value of its patented invention. Such a remedy puts the patentee not in the same position it would be had it not been wronged, but rather affords the patentee a payment far in excess of the value of the invention that has been taken. Given these complexities, the remedy for continuing infringement of patent rights should be guided by the exercise of discretion in balancing the traditional equitable factors in the particular case in light of the underlying purpose of the patent laws—the promotion of the useful arts—and not be predetermined by the nature of the right breached.

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injunction if such terms are accepted. The ability to license patents without the threat of injunction is amply illustrated by the healthy state of licensing among these market participants.

III.

PRINCIPLES OF EQUITY REQUIRE A SEARCHING EQUITABLE ANALYSIS PRIOR TO ISSUANCE OF AN INJUNCTION.

Unless trial courts are permitted, indeed directed, to undertake a searching equitable analysis, they will be unable to address the enormous hardship to technology companies caused by patent assertion companies that exist for the sole purpose of asserting "paper" patents against operating companies.

RIM is mindful of considerations important to research conducted by universities and research institutions that often results in patentable innovations that the institution itself most often will license along with its know-how to make new products available to the public. Similarly, in the pharmaceutical industry, many rounds of expensive testing over a period of years necessarily precedes commercialization of a patentable product. The company that develops the product or service may not be the company that eventually brings it to market, and may never "practice its invention." The activities of these companies clearly further the Constitutional objectives of patent law and RIM does not advocate any sort of wooden rule that would preclude injunctive relief to vindicate patents issued in these circumstances. By the same token, enforcement through injunction of pharmaceutical industry patents or university research patents does not depend upon the opposite rule that injunctions must be granted against patent infringement even in cases involving patent assertion companies wielding the threat of injunction to extract payments bearing no relationship to the value of the patented invention.

Businesses engaged in bringing products or services to the marketplace must make substantial investments, develop

partner or customer relationships and provide value long before generating profits. The output of a patent assertion company is a steady stream of letters mailed to operating companies demanding licensing fees—and promising litigation (and the threat of injunction) if they are not paid off promptly. The only strategic business decision patent assertion companies make is identifying the most vulnerable and lucrative targets: companies that over the years have taken risks, invested hundreds of thousands or even millions of dollars, developed products or services and customers and become successful. A patent assertion company's perception that permanent injunctions are routinely available only increases its demands. As several pre-Federal Circuit courts recognized, patent injunctions are "not intended as a club to be wielded by a patentee to enhance his negotiating stance." *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (injunction refused where plaintiff was not exploiting patent and injunction would harm defendant); *see also Nerney v. New York, N.H. & H.R. Co.*, 83 F.2d 409, 411 (2d Cir. 1936) (finding that where "the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue"; denying injunction on finding that that remedy would create public convenience and safety issues).[10]

A litigant that values its claim based solely on the damage it can inflict does not show irreparable harm, but only that its business model is based upon the ability to threaten whatever "targets of opportunity" it can find.[11] Given such

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[10]In this sense, in seeking permanent injunctions, patent assertion companies ask courts for injunctions to accomplish exactly what this Court has expressly condemned: to "restrain an act the injurious consequences of which are merely trifling." *Weinberger*, 456 U.S. at 312.

[11]The lack of irreparable harm for a patent assertion company is especially apparent in cases, such as this one, where the PTO has raised

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prominent targets as eBay and RIM, patent assertion companies eschew any actual development or deployment of technology. Instead, they work to increase their bargaining power against operating companies that do what they would never attempt. The Wall Street Journal calls the resulting litigation boom "the emerging legal black art of patent blackmail." *See* Lee Gomes, *Patenting Good Ideas Could Hurt Companies Rather Than Aid Them*, WALL ST. J., Aug. 23, 2004 at B1, *available at* http://online.wsj.com/article/0,,SB109321585862298031,00.html?mod=todays_us_marketplace. According to the Journal, such claims are "a great moneymaking scheme: buy a general and vague patent, then mail boilerplate notices of infringement to a few hundred companies. . . . [I]f someone accuses you of 'patent extortion,' simply drape yourself in the flag of innovation and claim you are protecting small inventors from greedy big corporations." *Id.*[12]

The risk of becoming a victim to a claimant of vague and general patents is significantly exacerbated as patents are now as likely to cover business tools to protect market share as they are to protect new inventions. As in the instant case,

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significant doubt as to the validity of the patents at issue, since the cloud on the patent's validity would affect any potential licensors' willingness to take a license. In fact, the patentee would likely be unable to enforce those claims against others unless and until the initial rulings are overturned and they are ultimately found to be valid.

[12]According to *BusinessWeek*:

> [T]he current judicial culture . . . has put many businesses at the mercy of so-called "patent trolls," outfits that exist solely to buy up hundreds or thousands of obscure patents with the expectation that they'll eventually manage to extract lucrative licensing agreements from businesses in need of the technology, or sue for infringement if they can't. (Lorraine Woellert, *Did RIM Pay Too Soon?*, BUSINESSWEEK ONLINE, April 8, 2005, *available at* http://www.businessweek.com/bwdaily/dnflash/apr2005/nf2005048_4289_db016.htm)

companies now assert "business method" patents that assert a right to exclude against any other company that would use the same general methods recited in that patent. As a notorious example, a bank chain recently received a business method patent for "creat[ing] a welcoming and inviting environment for a customer," providing such novel banking "inventions" as having a receptionist to greet customers, and providing convenient shelves upon which customers may write checks. *See* "System for providing enhanced systems management, such as in branch banking," U.S. Patent No. 6,681,985 (filed Oct. 5, 2001). Given the vagueness of such patents, and a mentality that "all we need is one claim on one patent to shut them down," the risks posed by the patent assertion companies are clear: any company providing writing surfaces (or a receptionist) for customers may be at risk. In this climate, it is difficult not to concur with the District Court that the public interest is an appropriate consideration in granting injunctions for "business method" patents.

RIM does not believe that the ability to use the threat of an injunction to leverage a payment reflecting the value of a company and not the value of the patent is the sort of leverage that the Federal Circuit had in mind when it stated that "[i]f [an] injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude . . . ." *MercExchange v. eBay*, 401 F.3d at 1339. This Court, however, needs to direct courts to take into account the evolving nature of patents and their assertion to ensure that injunctive relief is not used by patent assertion companies to create potential liability for technology companies far disproportionate to the value of the patented invention in the infringing product or service. The courts are uniquely positioned to ferret out the facts relevant to the equities weighing for or against injunctive relief in any particular case—including the nature of the product, the industry involved and the proportionate value of the patent as compared to the infringing product. *See* Dan L. Burk &

Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1665–67 (2003) (discussing the deep structural differences in the ways in which innovation occurs across industries and advocating that courts take industry-specific variation into account in applying general patent rules so as to avoid holdup or anti-commons problems).

This Court need not overrule *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) in order to affirm the power of the district courts to engage in equitable analysis. In *Continental Paper Bag*, the patentee was a participant in the paper bag industry and had developed its invention for use in its business. Although it had chosen not to use its invention due to the prohibitive cost of re-equipping its plant with new patented machines, it would likely use the invention at some point when its existing capital infrastructure wore out. *See* 210 U.S. at 428–29. The patentee refused to license its inventions to others in order to ensure that its competitors would not gain competitive advantage through the use of the patentee's own invention. It may well have been irreparably harmed had others, without its investment in capital infrastructure, been able to use the modification to the machinery covered by its patents to compete against it. Given these circumstances, the Supreme Court held that "it is certainly disputable that the nonuse was unreasonable . . ." (*id.* at 429), and that the mere fact that competitors were excluded from use did not prevent the issuance of an injunction. Damages would not have been an adequate remedy in those circumstances and the result in *Continental Paper Bag* is thus consistent with a traditional analysis.[13]

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[13]To the extent that this Court believes that *Continental Paper Bag* contains *dicta* to the effect that the reasons underlying non-use are irrelevant to the availability of injunctive relief for patent infringement, it should disregard this *dicta*.

The Court needs to direct courts to balance all of the traditional equities under Section 283, including the adequacy of remedies at law for and irreparable harm to the patent owner. Importantly, the *Continental Paper Bag* court itself engaged in an equitable examination by looking to the public interest. The Court determined, however, that the rights of the public were not implicated, since "[t]here was no question of a diminished supply or of increase of prices . . . ." 210 U.S. at 429. The Court specifically declined to decide whether a court in future cases might withhold injunctive relief in view of the public interest. *Id.* at 430. Even the Court's brief comments on public interest, however, suggest it had a much broader concept in mind than the frustration of "an important public need for [an] invention."

Although RIM itself has many patents to protect, it believes patent litigants should have leverage and bargaining power based on the legal merit of their claims, rather than on their ability to disrupt other businesses. This Court should act to ensure that Section 283 is interpreted in a manner that precludes the threat of an injunction being used to extract far more than a reasonable compensation for a patent right.

CONCLUSION

It comes as little surprise that those engaged in activities that most clearly promote the progress of the useful arts are most likely to be irreparably harmed if they cannot enjoin others from practicing their inventions. These are the very activities that patent rights were established to encourage, and it was to address the needs of these patentees that Congress made the injunctive remedy available. But Congress did not make injunctive remedies available in every instance, and this Court ought not permit courts to truncate the traditional analysis of when this equitable remedy is appropriate. To do so is contrary to the objectives underlying patent law

and will likely have serious implications for the technology-centric U.S. economy. Accordingly, RIM respectfully urges the Court to reverse the holding of the Federal Circuit and confirm that courts must conduct a full and searching equitable analysis in considering whether to issue permanent injunctions pursuant to Section 283.

DATED: January 26, 2006.

Respectfully,

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IN THE

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EBAY AND HALF.COM INC.,

Petitioners,

v.

MERCEXCHANGE L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* SECURITIES INDUSTRY ASSOCIATION, THE FINANCIAL SERVICES ROUNDTABLE, BOND MARKET ASSOCIATION, AND FUTURES INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

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INTEREST OF *AMICI CURIAE*[1]

Amici are leading trade associations that represent the major institutions in the nation's securities and banking sectors. Collectively, their members help to shape a vibrant, competitive marketplace and a growing national economy. The member associations are at the center of the way in which investors and consumers access and use financial services.

As holders, licensees, and users of patented technologies, *amici's* members support the patent system. At the same time, *amici* are also interested in ensuring that the remedial rules for patent infringement are balanced and flexible so that they do not needlessly endanger the reliability of the nation's financial systems and markets.

The danger is real. Today's financial markets and global economy depend on electronic communications and computerized information processing. The financial industry is built on extensive interdependencies between brokerage firms, banks, depositories, data processors, market data vendors, exchanges, and clearing entities. Many parts of the systems and subsystems involved embody patented devices, processes, software, or business methods. In this increasingly interlinked environment, *amici* are concerned that automatically granting injunctions in private patent disputes will create tremendous operational risks to the banking sector and the securities markets.

Amicus Securities Industry Association ("SIA") brings together the shared interests of approximately 600 securities firms to accomplish common goals. The SIA's members include

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1. Counsel of record for all parties have consented to the filing of this brief and the consents have been filed with the Clerk of the Court. No counsel for any party authored this brief in whole or in part, and no person or entity other than *amici*, their members, or their counsel has made a monetary contribution to its preparation and submission.

leading investment banks, broker-dealers and mutual fund companies. The securities industry employs nearly 800,000 individuals, and its personnel manage, directly or indirectly, the accounts of nearly 93 million investors. SIA's primary mission is to build and maintain public trust and confidence in the securities markets.

Amicus Financial Services Roundtable ("FSR") represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the nation's consumers. FSR member companies provide fuel for America's economic engine, accounting directly for $18.3 trillion in managed assets, $678 billion in revenue, and 2.1 million jobs. FSR's mission is to be the premier forum in which leaders of the United States financial services industry influence critical public policy issues.

Amicus The Bond Market Association ("TBMA") represents approximately 200 securities firms and banks that underwrite, trade and sell fixed-income securities in the United States and in international markets. Fixed income securities include U.S. government and federal agency securities, municipal bonds, corporate bonds, mortgage-backed and asset-backed securities, money market instruments and funding instruments such as repurchase agreements. The U.S. bond market has approximately $24.1 trillion in outstanding fixed-income securities. From its inception in 1976, TBMA has worked with its member firms, Congress, the SEC, the Federal Reserve Board and the Federal Reserve Bank of New York, state regulators, and self-regulatory organizations to enhance the liquidity and efficiency of the fixed income markets.

Amicus Futures Industry Association ("FIA") is a principal spokesman for the commodity futures and options industry. Its regular membership is comprised of approximately 38 of the largest futures commission merchants in the United States.

Among its approximately 150 associate members are representatives of virtually all other segments of the futures industry, both national and international, including U.S. and international exchanges, banks, legal and accounting firms, introducing brokers, commodity trading advisors, commodity pool operators and other market participants, and information and equipment providers. Reflecting the scope and diversity of its membership, FIA estimates that its members are responsible for more than 90 percent of all customer transactions executed on U.S. contract markets.

SUMMARY OF ARGUMENT

Congress authorized courts to issue injunctions in patent infringement cases, but did not require them. To the contrary, it commanded that injunctions "may" issue "in accordance with the principles of equity." The traditional principles of equity call for flexibility and balancing. In the decision below, the Federal Circuit abandoned flexibility in patent infringement cases in favor of a rigid rule that mandates injunctions absent exceptional circumstances.

In the process of setting its rule, the Federal Circuit trivialized the role of the "public interest." In the highly interdependent financial services sector, for example, the effects of private patent disputes can create tremendous operational risks for those not party to the dispute and systemic risks to the markets generally. The public interest, accordingly, should be given significant consideration, because the reliable operation of the financial markets is of paramount importance to the public. The risk to the nation's financial system from patent disputes is apparent, as illustrated by recent examples that are discussed below.

By virtually guaranteeing injunctions, the Federal Circuit's rule distorts the incentives for innovation. Far from promoting

innovation, the automatic injunction rule may discourage implementation of useful products that combine hundreds of innovations and are innovative themselves. The rule also facilitates abusive litigation. Restoring equitable factors into the decision-making process, and empowering courts to apply them, will promote innovation by protecting those who actually develop and implement innovations and by deterring those who seek to exploit inefficiencies in the current patent system.

ARGUMENT

I. FLEXIBLE EQUITABLE PRINCIPLES SHOULD GOVERN INJUNCTIVE RELIEF.

The Patent Act provides that courts "may" grant injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283. By using "may" instead of "shall," Congress expressed its desire for flexibility, not a rigid rule holding that injunctions should issue "absent exceptional circumstances," as the Federal Circuit held below. *Compare MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338-39 (Fed. Cir. 2005) *with United States v. Cook*, 432 F.2d 1093, 1098 (7th Cir. 1970) ("may" as opposed to "shall" indicates discretion).

"Flexibility rather than rigidity" has long been the hallmark of equity. *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). An injunction is an "extraordinary remedy" and one to be granted only after balancing the "competing claims of injury" and after paying "particular regard for the public consequences" of an injunction. *Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531, 542 (1987); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 313 (1982). Considerations of irreparable injury, inadequacy of legal remedies, balance of hardships, and the public interest are the traditional equitable guideposts. *See Weinberger*, 456 U.S. at 312-13.

The Federal Circuit has steadily divorced itself from this equitable approach. In 1984, the Federal Circuit agreed that whether an injunction should issue in patent cases "depends on the equities of the case." *Roche Prod., Inc. v. Bolar Pharma. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e). Indeed, it specifically rejected as "mistaken" the notion that an "injunction must follow" a finding of infringement. *Id.*

In 1985, this case-specific approach gave way to a rule favoring injunctions as the "norm." *See KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985). Three years later, the "norm" became a rule favoring injunctions "unless there is a sufficient reason for denying" them. *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988). Then in 1989, the "norm" became a "general rule" favoring an injunction "absent a sound reason for denying it." *See Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989). Finally, in *MercExchange*, the "general rule" became a "right" to an injunction to which a patent holder is "entitled" "absent exceptional circumstances" such as "public health." *MercExchange*, 401 F.3d at 1338-39.

The effect of these changes essentially has been to create an "automatic injunction" rule. This rule contravenes the express command of the Patent Act's § 283. It also builds in rigidity where flexibility is most desirable, trivializes the public interest factor of the traditional equitable test for injunctions and creates incentives opposite to the purpose of patents.

II. The Public Interest Should Be Of Paramount Concern, Not Relegated To Cases Of "Exceptional Circumstances."

A. Reliable Financial Markets Are Critical To The Public Interest.

Of particular concern to *amici* is the Federal Circuit's narrow "exceptional circumstances" exception to its general rule favoring injunctions. By its approach, the Federal Circuit effectively has restricted the consideration of the "public interest" to matters concerning "public health" in deciding whether to issue an injunction. However, in an increasingly interconnected world, courts should have the utmost discretion to consider the broad consequences injunctions can have before granting them. The nation's financial markets are a good example of why courts should have such flexibility.

1. The Nation's Markets Depend On Information Technology To Operate Efficiently And Reliably.

A sound financial industry and markets sustain the nation's economic vitality. The public therefore has a strong interest in their smooth and uninterrupted operation.

The financial industry and the markets have now irrevocably converted to electronic communications and automated transaction processing and, as a result, have enjoyed unprecedented productivity and efficiency gains. Until the 1960s, financial systems were primarily paper-based. The result, with respect to the securities industry, was that in the late 1960s growing trading volume "clogged an inadequate machinery for control and delivery of securities." H.R. Rep. No. 94-123, at 44 (1975), *reprinted in* Federal Securities Laws, Legislative History 1933-1982, Vol. III at 2514 (1983). This so-called "paperwork crisis" prompted congressional action. *Id.*

In 1975, Congress, recognizing that the markets were a "important national asset," responded with laws to ensure that "[m]odern communication and data processing facilities" would be implemented. *See* 15 U.S.C. § 78k-1(a)(1)(A)-(B). As Congress put it, developing electronic systems for a "national market system" was in the "public interest." 15 U.S.C. § 78k-1(a)(2).

As a result of decades of commitment, the financial industry has seen tremendous growth. As late as 1970, the New York Stock Exchange ("NYSE") had never in a year traded three billion shares. Today, three billion shares can trade in a matter of two days, and another three billion shares may trade in the same two days on Nasdaq, an all-electronic market that was not even launched until 1971.[2] The financial markets now also trade billions of dollars a day in products such as asset-backed securities, standardized options, and financial futures that did not even exist in 1970.

Indeed, today more Americans than ever before rely on the markets, for example, to save for a home, retirement, or their children's education. In 1980, some six percent of American households owned stock directly or through mutual funds and retirement plans. Today, 57 million households, nearly half of all American households, do so. *See Equity Ownership in America, 2005* (Invest. Co. Inst. & SIA, New York, N.Y.), at 1, *available at* http://www.sia.com/research/pdf/EquityOwnership05.pdf.

Electronic interconnection and automation of the financial markets has made this explosion in volume possible. Today, stock quotes are reported in real-time and corporate bond quotes must be reported in 15 minutes or less. Investors buy and sell

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2. *See* http://www.nyse.com/about/1088808971270.html; http://www.nasdaq.com/about/overview.stm.

stocks, bonds, and thousands of mutual funds in a matter of seconds. Through computers and electronic networks, investors are thus instantaneously linked to their banks, brokers, or money managers. These entities in turn are linked to automated clearing houses, trading exchanges, market makers, and electronic communications networks, which in turn are connected to the systems of entities that settle and clear trades and payments.

The banking sector has witnessed similar growth. In 1997, only 4.5 million U.S. households used on-line banking. At the end of 2004, some 53 million users did so.[3] Similarly, e-check transactions occurred 6.9 million times in 2003 for on-line consumer purchases, a nine fold increase over 2001.[4] Whereas paper checks were the norm two decades ago, today checks can be issued electronically, presented electronically, and settled electronically through automated clearing networks. Similar changes have occurred in on-line lending, including mortgage and car loans that are widely accessed by consumers.

With such high levels of participation in the market and electronic banking, interdependency and information sharing are critical. Any given transaction, of the hundreds of millions in a typical day, such as a loan, an e-check, or the sale of a bond or stock, thus involves systems maintained by numerous businesses working together at lightning speeds. For this interdependent financial system to function reliably, each individual component must also be reliable. A disruption in one link in the chain can affect the quality of the overall system, the

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3. *See Data Memo: The State of Online Banking* (PEW/Internet & Amer. Life Project, Washington, D.C.) (Feb. 2005), *available at* http://www.pewinternet.org/pdfs/PIP_Online_Banking_2005.pdf.

4. *More web retailers will check out e-checks*, INTERNET RETAILER, Sept. 9, 2004, *available at* http://www.internetretailer.com/dailynews.asp?id=12844.

operations of upstream and downstream market participants, and even individual investors' confidence in the system.

2. Patents Increasingly Play A Significant Role In The Financial Services Industry.

Many parts of the financial industry's intricate web are the subject of patents. The technologies and business processes upon which the financial world relies are increasingly subject to patent disputes.[5]

Historically, patents on software, electronics, and business methods have not played the significant role in the financial services industry that they do today. One principal reason for the change occurred in July 1998 with the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). *State Street*, a case that emerged from the financial services industry, ended doubts about the patentability of software and business methods. *Id.* at 1375 (taking "opportunity to lay this ill-conceived [business method] exception to rest").

As a result of the *State Street* decision, software and business method patent applications have exploded generally, and particularly in the financial sector.[6] Jaffe & Lerner, *supra*, at

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5. *See* Adam B. Jaffe & Josh Lerner, INNOVATION AND ITS DISCONTENTS at 14-15 (2004) (charting tremendous rise in patent litigation); Barry Grossman, *Patents Now Play Important Role in Financial Industry*, AMERICAN BANKER, Dec. 17, 2004 (as more patents issue, financial services industry is likely to see an increase in litigation).

6. The United States Patent and Trademark Office ("USPTO") categorizes patents into a number of classes. Class 705 encompasses machines and corresponding methods for performing data processing or calculation operations in over twenty financial and management data processing areas, including stock/bond trading, insurance, electronic

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119; *see also* Bronwyn Hall, *Business Method Patents, Innovation, and Policy*, (Econ. Dept., Univ. of Cal., Berkeley, Working Paper E03-331, 2003), at 3-4, *available at* http://repositories.cdlib.org/iber/ econ/E03-331 (ten to twelve-thousand patents a year under broad definition of software/ business methods).

In the expanding, fast-paced, and tightly-linked financial markets, the effects of injunctions cannot be confined just to the disputing parties. An injunction over a dispute about an infringing piece of hardware, a part of a software program, or a method of doing business that even briefly threatens one link in the system can have widespread deleterious effects.

B. Private Patent Disputes Expose Markets to Operational Risks.

The risks to the financial sector from private patent disputes are real. Cases have already left their mark and exposed the broader danger.

Treasury Securities Market: The eSpeed Case. One illustration of how private patent disputes impact the public interest is *eSpeed, Inc. v. BrokerTec USA, L.L.C.*. In 2003, eSpeed, an exclusive licensee of a patented "workup protocol" for electronic trading of United States Treasury securities, sought a preliminary injunction against its competitor BrokerTec.

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shopping, and money exchange. *See* USPTO, *Automated Financial Management Data Processing Methods (Business Methods)* (2000) ("USPTO White Paper") at 5. Class 705 also patent applications soared from 927 in 1997 to 1340 in 1998, 2,821 in 1999, 7,800 in 2000. *See* USPTO, *Class 705 Applications Filing and Patents Issued Data* (2004), *available at* http: //www.uspto.gov/web/menu/pbmethod/applicationfiling.htm.

BrokerTec and eSpeed provided essentially the only two electronic trading systems for the treasury securities market.

The dispute sparked the United States Department of Treasury to file a Statement of Interest in the case arguing that "the proposed injunction would effectively eliminate an electronic marketplace used by a significant percentage of traders in the secondary market for Treasury securities." *Statement of Interest of the United States* at 2, *eSpeed, Inc. v. BrokerTec USA, L.L.C.*, No. 03-00612 (D. Del., Dec. 12, 2003).

The district court denied a preliminary injunction in major part due to the impact an injunction would have on the "public interest." The court noted that (1) "shutting down the trading system used by a significant part of the market could reduce trading in Treasury securities indefinitely, making them less liquid and decreasing their attractiveness as an investment"; (2) a preliminary injunction would leave eSpeed as the only commonly-used electronic trading system for the secondary market, which created an unacceptable "systemic risk" – "[w]ithout an alternative trading system, the secondary trading market would be devastated if eSpeed's system went awry"; and (3) "'an injunction would give [eSpeed] a monopoly over the primary trading system used by the wholesale secondary market for Treasury securities'" resulting in potentially higher transaction fees. *eSpeed v. BrokerTec USA, L.L.C.*, 2004 WL 62490, *3-4, 68 U.S.P.Q. 2d 1466 (D.Del., Jan. 14, 2004). The district court further recognized that designing around the alleged infringement was not feasible. *Id.* at *3.

The district court concluded that eSpeed had not set forth any persuasive reason why its private interest in vindicating its patent rights was more important than the critical public interest in maintaining a fluid, competitive market for trading Treasury securities. *Id.* at *4. Fortunately, the issue of a permanent injunction never presented itself as a jury found that eSpeed's

licensed patent was invalid. *See eSpeed v. BrokerTec USA, L.L.C.*, __ F. Supp. 2d __, 2005 WL 3299705, *1 (D. Del., Dec. 5, 2005). However, had the issue of a permanent injunction arisen, the Federal Circuit's cramped "public health" exemption would have given the district court little discretion to avoid the deleterious consequences of an injunction.

The concerns expressed by the district court in *eSpeed* are not isolated but may arise in many other areas in the financial services industry.

The Bond Market: The MuniAuction Case. In December 2000, Grant Street Group was issued a patent on its MuniAuction system to conduct on-line auctions of newly issued fixed-income securities. Shortly thereafter, Grant Street began enforcing its patent by seeking licensing agreements from other on-line bond platforms. This led to a patent infringement suit filed in June 2001 against Thomson Financial, which provides electronic information to the financial community, over its alleged use of Grant Street's methodology for sales of municipal bonds.[7] Grant Street also informed the State of Wisconsin that using any electronic bidding system for bonds similar to that patented by Grant Street could subject the state to liability. The potential that private litigants have the "right" to a near automatic injunction that can halt on-line auctions of municipal bonds could cause great uncertainty in the bond markets which finance state and local governments.

The Banking Sector: The Check 21 Litigation. In October 2004, Congress passed the Check Clearing for the 21st Century Act, or "Check 21." Pub. L. No. 108-100, 117 Stat. 1177, *codified at* 12 U.S.C. §§ 5001-5018. The purpose of the legislation is to enable banks to handle more checks

7. *See MuniAuction Inc. v. Thomson Corp.*, No. 01-C-01003 (W.D. Pa., June 1, 2001). The case continues and has yet to be resolved.

electronically, which should make check processing faster and more efficient than physically transporting original paper checks from the bank where the checks are deposited to the bank that pays them. This transportation can be inefficient and costly.

Data Treasury Corp., which holds patents issued in 1999 and 2000 for certain electronic imaging and check processing methods, has aggressively targeted banks and check processors in numerous lawsuits, asserting patent infringement.[8] The extensive litigation has the potential to disrupt implementation of federal legislation meant to modernize the check processing industry. However, under the Federal Circuit's rigid rule, the district court in such cases would be unable to weigh such considerations.

Exchange Traded Funds: The Mopex Case. In August 2000, the American Stock Exchange filed for declaratory relief after Mopex threatened suit for patent infringement on claims that the exchange improperly permitted trading of exchange trade funds ("ETFs").[9] Mopex claimed it held valid patents on ETFs and sought to shut down the exchange's trading of these securities. After almost three years of litigation, the district court granted summary judgment to the stock exchange. It found that Mopex's business method patent was invalid because it had been disclosed in a written publication filed with the Securities and Exchange Commission over a year before Mopex had filed its patent. *See Opinion and Order, American Stock Exchange*

8. For examples of the many suits filed by Data Treasury, *see Data Treasury Corp. v. Bank of America Corp., et al.*, No. 05-cv-00292 (E.D. Tex., June 28, 2005).

9. *See American Stock Exchange, L.L.C. v. Mopex Inc.*, No. 1:00-cv-05943 (S.D.N.Y., Aug. 10, 2000). ETFs, which are publicly-traded securities structured so that the performance generally corresponds to an index such as the "S&P 500," hold hundreds of billions of dollars of investors' savings.

L.L.C. v. Mopex, Inc., at 22, No. 00-cv-05943 (S.D.N.Y, Feb. 4, 2003).

Although Mopex's lawsuit was unsuccessful, a finding of infringement and the resulting automatic injunction under the Federal Circuit's rigid rule could have caused an extraordinary disruption of the markets as well as a loss of confidence by investors in the markets.

Disaster Preparedness for Global Financial Markets: The RIM Case. The on-going patent infringement dispute between NTP and Research in Motion ("RIM"), the provider of BlackBerry devices and email services, also demonstrates the need for courts to consider the larger impact of injunctive relief. As it did in *eSpeed*, the federal government intervened in the *RIM* case in November 2005 by filing a Statement of Interest to ensure that its use of BlackBerry devices is "not impeded and that the public interest is not substantially harmed by any injunctive relief." *The United States' Statement of Interest* at 7, *NTP, Inc. v. Research in Motion, Ltd.*, No. 3-01-00767 (E.D.Va., Nov. 8, 2005).

Like the government, many professionals in the financial services industry also rely on BlackBerry devices and services, particularly as part of the business continuity and disaster contingency plans mandated by the securities regulators after the September 11, 2001 terrorist attacks. *See, e.g.*, NYSE Rule 446, Business Continuity and Contingency Plans; NASDAQ Rule 3510, Business Continuity Plans.

Yet More Examples: Increasingly, private patent disputes often are led by plaintiffs who did not invent the patented invention and have no interest, intent, or capacity to market actual products based on it. *See* p. 22, below. For example, in September 2003, Datamize, a small Montana company that functions primarily to hold patents, sued numerous on-line

brokers, including Charles Schwab, E*Trade, and Fidelity, alleging patent infringement.[10] In the suit, Datamize claimed that the defendants' Internet and PC-based trading platforms infringed several Datamize patents that were alleged to cover the ability to customize and personalize the content and layout of a user interface screen. Although Datamize ultimately lost its suit, a finding of infringement and the resulting automatic injunction could have jeopardized tens of millions of investors' access to the markets.

Similarly, the New York Stock Exchange faces a patent infringement suit with potential to affect market operations. In *Papyrus Tech. Corp. v. NYSE, Inc.*, the plaintiff claims that the NYSE infringes plaintiff's patent rights in a "wireless device that enables brokers to make and receive inquiries, receive and execute orders, and provide instructions for orders." *Papyrus Tech*, 325 F. Supp. 2d 270, 273 (S.D.N.Y. 2004). Under the Federal Circuit's holding below, if infringement is found, and the relief sought by Papyrus is granted, the NYSE could be subject to a mandatory injunction that could disrupt the world's largest stock exchange despite the fact that "[s]ince 1995, Papyrus has functioned merely as a patent holding company." *See id* at. n. 1.

Sole Source Providers: The concern about widespread disruption is heightened in the financial services markets because in many instances the markets depend on entities that are sole-source providers in their category. For example, the Consolidated Tape Association, an independent, industry-wide organization, is the single source for dissemination of real-time trade and quote information for U.S. exchange-listed securities. The entire securities industry depends on its constant data feeds. Nasdaq serves the same single-source role for prices and quotes in the

10. *See Datamize, Inc. v. Fidelity Brokerage Servs., L.L.C., et al.*, No. 03-C-00321 (E.D. Tex., Sept. 5, 2003).

over-the-counter equity markets. The Options Price Reporting Authority serves the same sole-source function for options quotes and prices.

After securities are traded, they must be settled and cleared, a process that ensures that sellers are paid and purchases are recorded to buyers. This task almost entirely falls to the Depository Trust & Clearing Corporation and its subsidiaries, whose computers, software and networks settled and cleared in 2004 some $1.1 *quadrillion* dollars in securities transactions. Its subsidiaries, the Fixed Income Clearing Corporation and the National Securities Clearing Corporation, provide the critical clearance and settlement services for fixed income instruments and mutual funds. All of these entities, along with major money center banks, national and regional exchanges, and many others, are critical elements of the market structure whose systems, if disrupted, can have enormous external effects on the nation's economy.

Managing external risk is, of course, part of an industry's function and, in the financial sector, industry participants spend enormous effort to anticipate and control the risk of market disruption. *See Towards Greater Financial Stability: A Private Sector Perspective*, (Counterparty Risk Mgmt. Policy Group II, New York, N.Y.), July 27, 2005, at 3, *available at* http://www.crmpolicygroup.org. However, as demonstrated, the issues arising from private patent infringement disputes can and do transcend the interests of the parties and create virtually unquantifiable and therefore unmanageable operational risk for the broader markets. *See, e.g., eSpeed*, 2004 WL 62490 at *3-4.

These unmanageable risks can lead to a lack confidence in the marketplace, and in a more severe case, systemic damage to the markets and financial system itself. *See Towards Greater Financial Stability: A Private Sector Perspective*, at 1, 5. Indeed, while the Department of Treasury was effective in safeguarding

the public's interest *pende lite* in *eSpeed*, the automatic injunction rule would squelch any similar concerns following a trial on the merits. The public interest, of course, does not evaporate after trial, yet the automatic injunction rule assumes it does.

To be clear, *amici* do not seek a special rule for the financial and banking services industry with respect to injunctions in patent infringement cases. Nor do they seek a rule that injunctions should never be granted. Indeed, in many cases *amici* believe injunctive relief after a finding of infringement will be appropriate. But private patent disputes do not happen in a vacuum. They can create tremendous real-world risks for those not party to them. Accordingly, under traditional principles of equity, as applied in patent infringement cases, courts should have flexibility to consider and temper these ill effects whenever they arise, whether in, or outside of, the financial services sector.

The Federal Circuit's narrow "public health" view of the "public interest" simply does not meet the need in an era of extraordinary interdependence and evolving notions of patentability. As new fields of science and industry emerge, evolving notions of the public interest should follow. *Amici* urge the Court to reject the Federal Circuit's narrow view of the public interest in this increasingly interlinked world. The Court should instead embrace a robust role for the public interest in decisions of whether to grant equitable relief in patent infringement cases.

III. The Automatic Injunction Rule Distorts Incentives to Advance Science And The Useful Arts.

In addition to the Federal Circuit's flawed, narrow view of the "public interest," its automatic injunction rule imposes substantial costs on innovation. Innovation depends on patent protection that is both strong *and* flexible. The Patent Act reflects this balance. It grants strong rights to exclude others from

making, using, or selling an invention, 35 U.S.C. § 271, but carefully balances these rights by making "extraordinary" injunctive relief discretionary.

By creating a "right" to an injunction, the Federal Circuit's decision below undoes this balance. By virtually guaranteeing that the strongest possible remedies are available in almost every case, the Federal Circuit's decision tips the balance into a tool, not for spurring innovation, but one that distorts the incentives to promote the progress of science and the useful arts. *See* U.S. CONST. art. I, § 8, cl. 8.

A. Automatic Injunctive Relief Distorts Incentives For Innovation.

The Federal Circuit's rule distorts the incentives for innovation by adopting a "once size fits all" approach rather than one tailored to the circumstances.

The patent system works differently in different industries. Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1589-90 (2003). In industries such as pharmaceuticals, a drug is more likely to be covered by a few patents held by one patentee. *Id.* at 1590. As a result, it is relatively easy to search for and identify potentially pertinent patents and avoid infringement.

But with respect to complex products such as software, which is used ubiquitously in the financial services industry, any given program can contain millions of lines of code and hundreds of parts. *Id.* at 1591. The multiple parts may contain hundreds of innovations independently arrived at but potentially subject to multiple patents held by numerous other entities. As a result, identifying relevant patents and avoiding infringement is substantially more difficult. *Id.*

In addition, in such cases, each patented innovation constitutes only a part of the overall program's value. However, because the Federal Circuit's automatic injunction rule does not differentiate between areas where a few patents cover one product and those where many patents may cover many minor improvements in a product, it empowers each of the many patent holders to coerce, by independent threats to obtain an injunction, the full value of the whole. The problem is exacerbated when different patent holders claim exclusive rights over the same invention, so called "patent thickets," or overlapping patents.[11]

Far from promoting innovation, the Federal Circuit's automatic injunction rule encourages multiple claimants, regardless of their contribution, to block commercialization of useful products that combine hundreds of innovations and are innovative themselves. The Federal Circuit's rule forces companies either to shut down production or make huge payouts that are disassociated from the value of patents that cover minor components.

Though it is inefficient and ultimately costly to the users and consumers who must bear the costs of these large payouts, the Federal Circuit's injunction rule countenances this "additional leverage," as it terms it, to patent holders. *MercExchange*, 401 F.3d at 1339. Promoting "additional leverage" by adopting a mandatory injunction rule, however, does not foster incentives to innovate. Paying hundreds of millions of dollars to address "additional leverage" that is created by inflexible rules means there will be hundreds of millions of dollars less for research and development.

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11. *See generally* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) ("FTC Report") at Ch. 2(III)(C)(1); *see also* Burk & Lemley, *supra*, at 1614, 1627-30.

Rules for injunctions should not be set to create a "club to be wielded by a patentee to enhance his negotiating stance," *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974), and this Court should not approve a "one size fits all" mandatory rule for injunctions that promotes the power of such a club in place of genuine incentives for innovation.

B. The Automatic Injunction Rule Distorts Incentives To Commercialize Innovations For The Public's Benefit.

Patents confer rights to exclude others from making, using, and selling inventions in return for public disclosure of inventions. The right to exclude granted in return for public disclosure, however, is "not designed merely to build up a library of information . . . but to get new products into the marketplace during the period of exclusivity so that the public receives the full benefits from the grant." *Rite Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1562 (Fed. Cir. 1995) (J. Nies, dissenting); *see also Kendall v. Winsor*, 62 U.S. 322, 327-28 (1858) ("[T]he limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless primary object in granting and securing that monopoly."); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (patent protection meant to "foster and reward invention" and "to stimulate further invention").

In light of this purpose, the right to exclude cannot mean that a patentee's failure to commercialize its patented invention is irrelevant to the issue of whether an injunction should be granted. Indeed, the statutory grant is intended to advantage patentees so that they can bring their patented goods to market before others. *See Rite Hite*, 56 F.3d at 1562. But when patentees fail to do so, that failure should be one of the equitable considerations that govern whether an injunction should issue.

See Foster, 492 F.2d at 1324 (denying injunction; "the appellee manufactures a product; the appellant does not. In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable.").

Granting mandatory injunctions to entities that have not commercialized their innovations is also contrary to the longstanding rule that equitable remedies may only be imposed where legal remedies are inadequate. *Rondeau v. Mosinee Paper Corp.*, 422 U.S. 49, 59-60 (1975) (affirming denial of permanent injunction where shareholders had "adequate remedy by way of an action at damages"). Were it any other way, injunctive relief becomes a tool to block innovation and capture the value added by those who actually spend the millions of dollars to implement and commercialize innovative ideas.

Indeed, such abusive use of patents has been on the rise in the last decade. There are an increasing number of entities whose business model is based solely on enforcing patents, not developing products. These entities are known by a variety of names, including patent holding companies, patent assessment companies, non-practicing entities, and more commonly by the derogatory term "patent trolls." *See* FTC Report at 31, n. 220.

These entities do not commercialize patented innovations, but commercialize patents. In many cases, patents are their only products. As one such entity explains it, their business is "analyzing, aggregating, and packaging inventions to increase the value of the overall collection." Intellectual Ventures, "Who We Are," http://www. intellectualventures.com/about.aspx. These entities acquire patents from, for example, failed companies, and, in some cases, generate their own by searching for gaps in current patents that they can fill by filing fresh applications.

Although these companies often bill themselves as "invention" companies, their focus is on getting patents and asserting them. They take advantage of an under-funded U.S. Patent & Trademark Office and the difficulties it faces in delivering quality patents in fields that historically have not been the subject of patents. *See* FTC Report at 8-10 (discussing inadequacies in patent system); *see also* USPTO White Paper at 11 (acknowledging that examining business method patents is "filled with challenges"); Jaffe & Lerner, *supra*, at 145-49 (discussing "Special Problems of Emerging Industries").

As a result of the USPTO's difficulties, patent quality has degraded. Not surprisingly, poor patent quality results in reduced rates of innovation and higher prices for consumers. *See* Wendy H. Schacht & John R. Thomas, PATENT REFORM: INNOVATION ISSUES, CONGRESSIONAL RESEARCH SERVICE REPORT FOR CONGRESS (2005) at 6-7. Indeed, it encourages opportunistic rent-seeking instead of beneficial innovation, and forces industry unnecessarily to devote resources on patent litigation defense.[12]

For many non-practicing entities, value comes from settlements forced under threats to obtain devastating court orders to stop production. In addition to the club of an injunction, such entities also wield the high-cost of defending patent infringement cases to extract greater value than a patented part contributes to a whole system.[13] Financial institutions are prime

12. *See* Bronwyn H. Hall & Dietmar Harhoff, *Post-Grant Reviews in the U.S. Patent System—Design Choices and Expected Impact*, 19 BERKELEY TECH. L.J. 989 (2004); Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577 (1999); *see also* Zachary Roth, *The Monopoly Factory*, WASHINGTON MONTHLY, June 1, 2005.

13. The "rule of thumb" is that defending a patent infringement case will easily exceed $1.5 million. *See* Mark H. Webbink, *A New* (Cont'd)

targets for these non-practicing entities. Financial institutions are perceived to have endless deep pockets and a high volume of "taxable" daily transactions – both an attractive lure for claimants.[14]

The Federal Circuit's automatic injunction rule encourages the commercialization of patents instead of rewarding those who commercialize patented innovations and seek injunctions to protect their legal monopoly while they compete in the marketplace. By guaranteeing injunctive relief regardless of the circumstances of the case, the Federal Circuit's rule shifts scarce resources to plaintiffs who exploit the patent system at the expense of those who actually invest in making products and delivering services that benefit the public.

Reinserting traditional balancing principles of equity is the solution to the problem. Instead of holding the sword of Damocles over industry regardless of the circumstances of a case, this Court should free the lower courts to consider all the relevant factors before granting injunctions, including factors such as whether an asserted patent is an improvement on existing

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(Cont'd)

Paradigm for Intellectual Property Rights and Software, 2005 DUKE L. & TECH. REV., May 1, 2005, at 15. Larger cases can cost each side up to $4 million. *See* Sarah Lai Stirland, *Will Congress Stop High-Tech Trolls?*, NATIONAL JOURNAL, Feb. 26, 2005, at 612.

14. The Court has been careful to consider the risks of excessive litigation costs in other contexts. *See, e.g., Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 740-41 (1975) (recognizing as basis for limiting plaintiff class for private suits under Rule 10b-5 that mere pendency of securities lawsuit "may frustrate or delay normal business activity of the defendant which is totally unrelated to the lawsuit" and that litigation costs and disruptions impose "a social cost rather than a benefit"). Similar concerns should cause the Court to be careful when crafting remedies in patent cases.

techniques, whether and to what degree the patented innovation is merely a component in a complex good, the length of time a patent has been unused, whether a patentee intends to commercialize the invention, and whether the patentee has already licensed the invention, and if so, whether widely or exclusively.

Moreover, courts should be encouraged to be protective, not dismissive as the Federal Circuit was below, of the public interest. The public has no meaningful way to address in court the external consequences, such as disruption to financial markets, of private patent disputes. Nor can non-disputants seek redress for the wider injuries that can be caused by injunctions. Letting courts balance all of the traditional equitable factors will provide effective remedies against infringement and encourage innovation for the public benefit.

CONCLUSION

The Federal Circuit's decision below replaces the principles of equity with a rigid rule contrary to the command of the Patent Act, and wrongly adopts an overly narrow view of the public interest component of the long-standing equitable test for injunctions. It should be reversed.

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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC.,

Petitioner,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR TECHNOLOGY PATENTS & LICENSING, INC., EXPANSE NETWORKS, INC., AND CHARLES A. ELDERING AS AMICI CURIAE SUPPORTING RESPONDENT

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INTEREST OF AMICI CURIAE[1]

Amici are entities whose businesses are based on the management of intellectual property, and in particular patents. *Amici* believe that strong patent rights, and in particular certainty in the enforcement of those rights, are essential to maintain the appropriate incentives for innovation. *Amici* also believe that maintaining those rights is crucial for the efficient operation of markets in the global economy, in which the developers of intellectual property and the manufacturers of products are very frequently different entities. *Amici* believe the well-established presumption in favor of permanent injunctive relief to implement a final judgment of infringement is essential to the ability of patent holders to enforce their patents. Petitioner seeks to alter dramatically the established system and replace it with a system that would significantly reduce the ability of holders of United States patents to maintain technological leadership.

Amicus Technology, Patents & Licensing, Inc. provides patent analysis, development and acquisition services to clients ranging from publicly traded multinationals to startups and sole inventors.

Amicus Expansē Networks, Inc. develops computer based system solutions, and previously monetized its intellectual property in the field of targeted advertising through the sale of a patent portfolio of issued and pending patents in that field.

Amicus Dr. Charles A. Eldering is an engineer, inventor, entrepreneur, and patent professional, with more than 20 issued and 40 pending United States patents. Dr. Eldering is the founder and president of both Technology, Patents & Licensing, Inc. and Expanse Networks, Inc.

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1. In accordance with Supreme Court Rule 37.6, *Amici* state that this brief was authored in its entirety by the counsel listed herein. No person or entity other than *Amici* listed on the cover made a monetary contribution to the preparation or submission of this brief. A blanket consent to the filing of amicus briefs in support of either party has been filed with the Clerk of the Court by Petitioner and Respondent.

SUMMARY OF ARGUMENT

For over 150 years, the rule in patent cases has been that when a plaintiff shows that a defendant has infringed a valid patent, an injunction should issue as a matter of course in the absence of special circumstances. This Court and the Federal Circuit have upheld this rule over and over in the face of repeated and diverse attacks and arguments, correctly pointing out that it is for Congress, not the courts, to define the remedial system that best implements inventors' constitutional rights to exclude others from using their innovations for a limited time. The rule is not a "per se" or "automatic" injunction rule, but is consistent with the requirements of Section 283 of the Patent Act, requiring courts to apply principles of equity in these cases. In most cases those principles will favor injunction, and it is rarely necessary to examine each equitable factor explicitly. The default presumption—that irreparable harm exists and legal remedies are an insufficient substitute for the express statutory grant of the right to exclude others—gives the correct result in the vast majority of cases and creates certainty and predictability that are required to support innovation. In the rare case where some externality (such as an effect on public health) requires an exception, infringers can appeal to principles of equity and, if successful, avoid an injunction and continue infringing without cost, so long as equity requires it.

The stable and predictable enforcement environment provided by these rules has created markets that could not otherwise exist. These include not only markets for inventions, but also markets for the underlying intellectual property rights associated with those inventions. Potential infringers use well-understood economic models, including game theory, to weigh the consequences of a contemplated infringement, and the current system provides a deterrent to infringement that is priced into those models. Adding new burdens or additional layers of proof to patent enforcement creates uncertainty and removes that deterrent, the market effect of which is to reduce greatly the value of intellectual property rights, some of which

investors have already paid millions of dollars to acquire and protect.

In addition, the burden of this uncertainty falls disproportionately on the most important inventions. New technologies can be classified as "disruptive" or "sustaining" and "incremental" or "breakthrough". Disruptive, breakthrough technologies are those that fundamentally change the way people work in or think about the areas in which they arrive. These innovations, however, are especially difficult to value as markets for them typically do not exist at the time they appear. Business models based on these innovations may be unconventional, and rational inventors may determine that the most efficient course of action is neither to produce nor to license these innovations until a more mature market emerges. The courts are ill-equipped to determine, in these cases, what legal damages might constitute adequate compensation, what precisely constitutes an "irreparable" harm or whether the innovator's chosen business model is entitled to protection under more traditional equitable analysis. Instead the courts must assume that the patent holder is rational and, by enforcing the right to exclude, permit the market to value the invention. The rule in *Continental Bag Co. v. Eastern Bag Co.*, 210 U.S. 405 (1908) has accomplished this for nearly a century of growing innovation. This Court should reaffirm it and uphold the Federal Circuit's decision.

ARGUMENT

I. The Rule Applied By The Federal Circuit Is Not A *Per Se* Rule, But A Rule Crafted To Create Economically Necessary Certainty While Recognizing The District Courts' Discretion To Grant Or Deny Permanent Injunctions

A. The Federal Circuit Has Consistently Recognized District Courts' Discretion To Grant Or Deny Permanent Injunctions

The United States Constitution authorizes Congress "To promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . .

Discoveries." U.S. CONST. art. I, § 8, cl. 8. Congress, in exercising this authority, has determined that "exclusivity" means more than merely the right to collect damages for infringement, and so it has authorized the district courts to "grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283.

Petitioners argue that the Federal Circuit has done away with Section 283 in its injunction analysis in favor of a *per se* rule that strips the district courts of discretion in applying that statute. Petition at 2. Petitioners are mistaken. As the Federal Circuit has made it clear in this case, and in all of its earlier jurisprudence on this subject, "that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction." *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1272 (Fed. Cir. 1999).

The Federal Circuit's statement that patentees are *normally* entitled to a permanent injunction once infringement and validity have been established is fully consistent with Section 283 and with the traditional, four factor test approved by the Court in determining the propriety of granting injunctive relief. The BRIEF OF AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION AND FEDERAL CIRCUIT BAR ASSOCIATION AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY filed herein on January 17, 2006 (the "AIPLA/FCBA Brief") treats this subject in greater detail, and *Amici* join in and adopt Section I thereof including the authorities cited therein.

B. The Rule Applied By The Federal Circuit In This Case Applies Traditional Equitable Principles, But Appropriately Recognizes That Certain Factors Will Generally Favor Injunction

In contexts outside of patent law, this Court has identified four equitable factors relating to the injunction analysis: (1) whether plaintiff would face irreparable injury absent an injunction, (2) whether plaintiff has an adequate remedy at law,

(3) whether granting the injunction is in the public interest, and (4) whether the balance of hardships tips in plaintiff's favor. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982). The Federal Circuit has not disposed of this injunction analysis, but rather has acknowledged (implicitly, if not explicitly) that when infringement has been established, these four factors will typically favor injunction.

First, Congress has determined that a patent confers upon its owner "the right to exclude others" from making, using or selling the covered invention for a limited term. 35 U.S.C. § 154(a)(1)-(2). The Federal Circuit has pointed out that "[t]he very nature of the patent right is the right to exclude others." *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983). Thus, where validity and continuing infringement have been established, "immediate irreparable harm is *presumed*." *Id.* (emphasis supplied). Contrary to Petitioners' argument, the Federal Circuit has not, either in this case or in its past jurisprudence, eliminated the "irreparable harm" element of the injunction analysis. It has merely determined, correctly, that the fundamental right to exclude granted to patent-holders by Congress for a limited term (which term in not tolled during infringement) supports a presumption that infringement causes irreparable injury.

Second, a final determination of validity and infringement establishes the inadequacy of the legal remedy, just as it establishes irreparable harm. The Constitutional grant of exclusivity, taken up explicitly by Congress in the statute, clearly establishes that the right to recover money damages cannot adequately take the place of the right to exclude—the two rights are fundamentally different, and both Congress and the Founding Fathers elected to grant patent owners *both* rights for the limited time during which patent protection is available. The Federal Circuit explicitly examined this element of the traditional test, and here found that the patentee's willingness to license its patents did not rebut its presumptive right to injunctive relief. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed.

Cir. 2005). As set out in detail in the AIPLA/FCBA Brief (Section II(B) and cases cited) this holding is not only consistent with the long line of Federal Circuit precedent, but is also the rule in trademark and copyright cases.

Third, in considering the "public interest" factor, the injunction analysis favors the patentee because, as the Court has noted "the patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (quoting *Bonito Boats Inc. v. Thunder Craft Boats Inc.*, 489 U.S. 141, 150-51 (1989)). The maintenance of that balance must be foremost in the public interest analysis and thus, as the Federal Circuit has noted, it may be presumed that in most cases public policy will favor an injunction as that is the remedy Congress provided. *Smith*, 718 F.2d at 1578 ("Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research."). This is not to say this initial presumption cannot be rebutted, however, and the substantial public interest in maintaining this balance thus can be outweighed, for example, when the "patentee's failure to practice the patented invention frustrates an important public need for the invention, such as the need to use an invention to protect public health." *MercExchange*, 401 F.3d at 1338 (internal quotation omitted). In this case, however, the Federal Circuit correctly found, that no such concerns sufficient to outweigh the presumption could be found.

Fourth, the final element of the injunction analysis compares the hardship the patentee would suffer absent an injunction with the burden the injunction would impose on the infringer. This element is rarely at issue in patent cases, as an adjudged infringer rarely takes the position that infringement should be excused because of the hardship it would face if forced

to cease its unlawful conduct. When infringers do make such arguments, the evidence of harm they present is often speculative or—as here—contradicted by their own public statements. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp.2d 695, 714 (E.D. Va. 2003), *rev'd*, 401 F.3d 1323 (Fed. Cir. 2005) (Petitioners have stated that "they can design around the patents with relative ease".). While the Petitioner argued below, and apparently argues here, that the "hardship" arising out of the need for judicial administration of an injunction should weigh in its favor, the Federal Circuit correctly recognized that the burden of judicial administration is insufficient to tilt the balance as it is not a hardship to the defendant. *MercExchange*, 401 F.3d at 1339.

A more detailed explanation and analysis of *Amici's* arguments on the foregoing four elements, and additional authorities supporting *Amici's* position, are set out in Sections II(A) through II(D) of the AIPLA/FCBA Brief. *Amici* hereby join in and adopt those Sections of the AIPLA/FCBA brief and the authorities set out therein.

C. The Recognition That Certain Factors Generally Favor Injunction Adds Certainty To The Patent Enforcement Process And Permits Markets, Rather Than Courts, To Determine Appropriate Values For Innovation

Perhaps the most important benefit of the system of presumptions laid out above is that it provides certainty and predictability to the markets that have arisen not only around particular inventions, but around the business of innovation itself. Those who invent and those who fund invention require a predictable system of protection—including predictable remedies—to allow them to determine whether the enormous investments of time and money they may be making are worthwhile. Uncertainty in this process, injected by the potential application of an ill-defined standard by an ill-informed lower court, is the enemy of invention. The injunction is the primary deterrent against infringers, and is the basis by which the patent holder can keep others from violating their rights.

Justice Breyer, in his concurrence last term in *MGM Studios* described the dangers of ill-defined standards (in the copyright context) and their chilling effects on innovation:

> To require defendants to provide, for example, detailed evidence—say business plans, profitability estimates, projected technological modifications, and so forth—would doubtless make life easier for copyrightholder plaintiffs. But it would simultaneously increase the legal uncertainty that surrounds the creation or development of a new technology capable of being put to infringing uses. Inventors and entrepreneurs (in the garage, the dorm room, the corporate lab, or the boardroom) would have to fear (and in many cases endure) costly and extensive trials when they create, produce, or distribute the sort of information technology that can be used for copyright infringement. They would often be left guessing as to how a court, upon later review of the product and its uses, would decide when necessarily rough estimates amounted to sufficient evidence. They would have no way to predict how courts would weigh the respective values of infringing and noninfringing uses; determine the efficiency and advisability of technological changes; or assess a product's potential future markets . . . The additional risk and uncertainty would mean a consequent additional chill of technological development.

MGM Studios, Inc. v. Grokster, Ltd., 545 U. S. __, 125 S. Ct. 2764, 2793 (2005). In *MGM Studios*, Justice Breyer was discussing the potential chilling effect that uncertainty arising out of a nebulous or ill-defined standard for contributory infringement might have on potential inventors. Precisely the same concerns are involved here.

As set out below, creators of breakthrough inventions—inventions for which there is no present market or for which the market is in its infancy—are particularly hard-pressed to come up with a traditional analysis of irreparable harm or

sufficiency of legal remedies. To force such patent holders into the traditional equity showings required for an injunction without the benefit of the presumptions traditionally afforded by this Court and the Federal Circuit would provide the same "additional risk and uncertainty" and "consequent additional chill of technological development" so accurately forecast by Justice Breyer. The present system, on the other hand, provides a set of clear, easily applied rules with limited and well-defined exceptions. As a result, patent holders who have prevailed in litigation are generally granted the relief provided for them by Congress, but in those cases where traditional equitable concerns—such as the public welfare—require exceptions, infringers are permitted to continue their infringing conduct *without any cost whatsoever*. The system creates traditional market incentives and allows the participants, rather than the courts to determine the value of innovation.

II. For Over 150 Years, The Presumption Of Injunctive Relief Has Provided Inventors And Investors A Predictable Basis On Which To Make Balanced Economic Decisions

A. The Rule Applied By The Federal Circuit Is Not New And Is A Part Of The Expectations Of Inventors And Investors

The Federal Circuit's application in this case of the rule that an injunction will normally issue upon a finding of infringement of a valid patent is not new. For a century and a half, inventors and investors have relied on the expectation that injunctions will generally be available to protect patent rights. The exceptions to that rule are also well-known, well-defined and have become a part of the inventor's decision to disclose his invention and the investor's decision to support it. These expectations are based in large part on over one hundred years of consistent prior decisions of this Court (including its decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) at issue here), the Federal Circuit and other

Circuit Courts prior to the Federal Circuit's founding. Well-developed markets have evolved based on these expectations for both the inventions themselves and for the rights underlying them.

Section III of the AIPLA/FCBA Brief contains a more detailed analysis of the foregoing argument, including authorities in support thereof dating back to 1837. *Amici* hereby join in and adopt Section III of the AIPLA/FCBA Brief and the authorities set out therein.

B. The Exclusionary Right Recognized By This Court And The Federal Circuit Permits Investors And Patent Holders To Maximize Profits And Monetize Their Inventions According To Business Plans and Objectives

Congress has at its disposal the tools for creating compulsory licensing systems, and in some areas of intellectual property it has chosen to do so. *See, e.g.*, 17 U.S.C. § 115 (compulsory copyright licenses for phonorecords). In the patent area, however, as this Court has noted, it has refused to do so even where a patent holder chooses not to exploit its invention. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 433 (1945) ("Congress has repeatedly been asked, and has refused, to change the statutory policy by imposing a forfeiture or by a provision for compulsory licensing if the patent is not used within a specified time."). Instead, Congress has chosen to permit the market—rather than the courts or some regulatory body—to determine the value of a given innovation. It has done this by explicitly permitting the patentee to exclude others from making or selling its invention, thus permitting the patentee to earn profits as it sees fit, either by licensing its rights, manufacturing under the patent and excluding others, or any combination of those and other strategies. This system works because it is built on a fundamental notion of economics: that in most circumstances market participants are better situated to evaluate inventions than outsiders.

Thus, in the simplest case, the patentee may choose to manufacture products based on the patented invention and use its exclusionary rights to prevent others from doing so, thereby maintaining, for the limited life of the patent, a manufacturing monopoly. Under these circumstances the patentee can, assuming sufficient knowledge of the elasticity of demand for the product and marginal costs, produce and price the appropriate quantity of patented products to maximize profits. If the patentee has miscalculated—perhaps due to an unknown or newly developed non-infringing substitute—the market's reaction will act as an input to pricing, causing the patentee to adopt a more optimal pricing and production structure. Use of the exclusionary right to achieve optimal results (both for the patent holder and for consumers) through licensing is well understood and described in the economic literature. *See* John W. Schlicher, LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS AND MARKET DYNAMICS 20-23 (1996).

In other instances, the patent holder will determine that the profits available through licensing the patent, either exclusively or otherwise, will exceed those available through manufacturing the invention itself. In these instances it is economically favorable for the patent holder to license the invention rather than manufacture it. Again, assuming the patent holder is attempting to maximize profits, this decision should be based on a determination of the most efficient manufacturer and thus should reduce costs to consumers.

There may be any number of reasons that an inventor or patent holder may not be the most efficient manufacturer (or user) of the patented innovation. For example, an individual inventor or small business may lack capital, access to manufacturing facilities, marketing resources or distribution channels to produce and sell the patented product or process efficiently. Even if there are no such barriers to entry, a small inventor may not be the most efficient choice to "productize" a particular innovation, particularly if the invention is an improvement on an existing invention that may itself be

protected. In other cases, even a large manufacturer may determine, for reasons related to sunk costs in existing manufacturing processes, that it is economically disadvantageous to produce under the patent.[2]

Regardless of the size of the entity, other reasons may exist which make it economically unfavorable for the patent owner to manufacture under the patent: manufacturing under the patent may not fit the time horizon of the patent owner's business plan, which make dictate a later entry into the market; the patent owner may use a substitute technologies that offers economically favorable manufacturing opportunities; or the patent owner may be unable to take advantage of limit pricing strategies[3] or benefit from the network externalities available to a larger manufacturer.[4] Each of these is an economically justifiable

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2. The Court correctly recognized these concerns in *Continental Paper Bag Company*, noting the patent holder's reasonable decision that it would "make more money with the existing old reciprocating Lorenz & Honiss machines and the existing old complicated Stilwell machines than could be made with new Liddell machines, when the cost of building the latter was taken into account." 210 U.S. at 428. As set out herein, *Amici* respectfully submit that the Court's decision in that case was correct and should not be modified.

3. Limit pricing strategies involve pricing a product below the monopoly profit-maximizing price (but above the competitive price) and producing a quantity greater than that at which marginal revenue equals marginal cost so as to deter entry by fringe competitors. *See* Sharon M. Oster, MODERN COMPETITIVE ANALYSIS 288-92 (1999).

4. "Network externality has been defined as a change in the benefit, or surplus, that an agent derives from a good when the number of other agents consuming the same kind of good changes." S. J. Liebowitz & Stephen E. Margolis, NETWORK EXTERNALITIES (EFFECTS) (2006), *at* http://www.utdallas.edu/~liebowit/palgrave/network.html. For example, a patentee of a feature related to a computer operating system or microprocessor may not be able to successfully manufacture or distribute a product with that feature—in spite of the feature having substantial economic value to customers—if the feature needs to be integrated into an existing operating system or hardware device which has been adopted by the vast majority of users.

reason for a patent owner to choose licensing over manufacturing as a business model. Because that choice is based on the patent owner's informed and self-interested determination of the most efficient supplier, it will provide the invention to consumers in the market at the optimal price—that is, the price that optimally balances the constitutionally mandated, time-limited patent "monopoly" with the consumer's right to partake in the invention.

In any of these cases the patent holder may be considered a "non-manufacturing entity" with respect to the patented invention, even though it may be a dominant player or leading manufacturer in the same market. As described above, however, and notwithstanding Petitioner's claims to the contrary, there is nothing inherently economically suspect about non-manufacturing patent owners. In fact, the rise of non-manufacturing entities that maintain control of intellectual property without manufacturing the patented products is well accepted in today's knowledge economy. This sector is so fundamental to the modern economy that it is important to consider it separately from the markets for the inventions themselves. There exists, of course, a market for inventions—new drugs, improved computer software and hardware, innovative financial products and a host of other inventions and substantial improvements to existing products and services. The market for these innovations is, at some stage, typically a consumer market: the end users are typically public consumers who will buy products or services based on the patented inventions.

There is also, however, a related market for the rights underlying these innovations. It includes companies that buy and sell patent rights, as well as companies, such as *Amici*, that service that market by researching, analyzing, evaluating and aiding in the marketing, licensing and protection of those rights. This, too, is a well-developed market, but it is not a consumer market—it is composed primarily of highly sophisticated participants who understand with great precision not only the

inventions covered by the patents in which they trade, but also the patent laws themselves and the rights conferred by them. The participants in these markets have made and continue to make multi-million dollar decisions based on the long-standing understanding of the precise balance offered by the patent laws and the remedies they entail. Any change in that balance will have an effect not only on the incentives to invent, but also on the value of existing portfolios of intellectual property held and traded by the participants in this secondary market.

The Federal Circuit's current rule, and the rule under *Continental Paper Bag*, properly establishes the incentives necessary to facilitate these markets while maintaining principles of equity. Increasing the burden on a patent owner seeking an injunction would disrupt that system. For example, if the Court disposes of the current rule of presumptive irreparable injury and inadequacy of legal remedy once infringement and validity are proved, the patent owner is placed in the untenable position of "fortune teller". The patent owner placed in such a position would have to come forward with a developed business plan based either on licensing or manufacturing—complete with assumptions, risks, and returns—to meet the additional burden. But the exclusionary right associated with the patent is designed precisely to avoid this requirement of looking into the future; it sets up a system by which the market provides this information during negotiations rather than forcing the participants to make *ex ante* determinations of what a potential licensee might pay.

Thus, under the patent system as Congress has currently designed it, the inherent nature of the patent as representative of a new and useful idea requires that the patentee be able to exclude others—without the need to show how use of the idea by the infringer will affect their business plan—simply upon the showing that the patent is valid and infringed.

C. Litigation Seeking Injunctive Relief Is Not A Windfall; It Carries With It Appropriate Risks And Rewards.

Much of the current debate over the injunction rules, including the arguments set out by some other *Amici* in this case, centers on the idea that an injunction granted to a patent owner represents a market failure—that it is a tool for "hold ups". This idea is false for a number of reasons, but one fundamental misapprehension underlying it is the assumption that the right to an injunction provides the patent holder with instantaneous monetization or the ability to reap rewards greater than which they would be entitled to under a royalty based damages calculation.

In fact, when the patent holder elects to pursue costly litigation (thereby seeking injunctive relief in lieu of a settlement for cash, a royalty or both) it takes very substantial additional risks that do not always result in a favorable outcome. In raising the stakes, the patent holder forces the infringer further to consider other options, including designing around the patent and attacking the validity of the patent through reexamination. During the course of the litigation (and any settlement discussions that may have taken place) both parties will have considered these options and their potential costs. But upon a finding of infringement of a valid patent, the defendant facing a substantial business disruption may determine that it is economically viable to change its product to avoid infringement, or to undertake the cost of a further challenge at the Patent & Trademark Office (the "PTO"), with the attendant risk that the patent survives such further scrutiny and emerges strengthened. In the event that an infringer chooses not to license and instead designs a work-around that is either better, cheaper or more readily licensed by others, the value of the patent will be substantially lessened and the patent holder's gamble will not only have failed to pay off, it will have backfired.

There is no basis for assuming, nor has Petitioner demonstrated, that there is any fundamental market failure

attendant upon the grant of injunctive relief in patent cases, and in fact the economic literature is to the contrary. *E.g.*, Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655, 2657 (1994) For policy purposes at least, one must assume that infringers and inventors alike are rational actors operating to maximize profit. Infringers—on notice of their potential infringement either from the patent holder or from their own research—look at the overall economics of the situation and determine that it is more efficient to infringe than to license. In this case, Respondent has noted that the royalty awarded by the district court for past infringement, even if carried forward, would be a tiny fraction of the funds eBay has earned (for example in its stock offerings) by its use of the invention. The decision to infringe was thus, for eBay, perfectly economically sound absent an injunction.

But eBay's analysis, we must assume, did not stop there. Its decision to infringe must be examined as a cost-benefit analysis that included the potential cost of losing an infringement litigation. That cost, under the present rules, must have assumed that the result of such a loss would be an injunction. The cost of that injunction to eBay is something only eBay can calculate, because it is not necessarily the cost of taking a post-litigation license from MercExchange. It may be that cost, or the cost of researching and developing a work-around, or the cost of cross-licensing a technology from another source, or the cost of pursing a reexamination or any combination of these and a host of other potential escape routes. The infringer itself is in the best position to evaluate these outcomes and the predictability of the injunction allows it to do so. Business and their lawyers now use complex economic models based on game theory to evaluate risk and as an aid in making decisions during the course of a litigation. *See* Reiko Aoki & Jin-Li Hu, *A Cooperative Game Approach to Patent Litigation, Settlement, and Allocation of Legal Costs* (1999), *at* http://yoda.eco.auckland.ac.nz/~raoki/personal/papers/Nashjan99.pdf; J. Steven Baughman, *The Impact of Non-Traditional Patent Litigation on Cost/Benefit Analysis* (2003), *at* http://library.findlaw.com/2003/Jun/24/

132826.html. The injunction provides the only efficient deterrent to the infringer, forcing it to internalize the market value of the invention in the course of its calculations. A change to the present system would make infringers more likely to ignore this potential cost, especially if it increases the probability that a court will fail to enter and enforce an injunction.

The presumptive right to an injunction associated with the patent can thus be used by the patent holder to "test" the market, but with not without associated risks. The current system properly enforces the right to exclude others from using the patented invention by making injunctions the rule in most cases of infringement, but it does not automatically provide for the ability to monetize patent rights. Once the injunction issues, it is up to the marketplace to determine the true value of the patent or to provide more efficient solutions within the context the inventor's patent monopoly. The current system is consistent with well established principals of risk and reward in a free marketplace, creates incentives to innovate beyond current patented solutions, and rewards those who seek to protect their innovations, provided those patented innovations can withstand design around attacks. Placing an additional burden of proof on the patent holder seeking an injunction forces the court to act as the marketplace, something is ill-equipped to do.

III. This Court's Holding In *Continental Paper Bag* And The Rule Applied By The Federal Circuit Represent A Balance Of Rights That Provides Certainty And Enhances The Market For Innovation

A. Innovations Can Be "Sustaining" Or "Disruptive"; Though The Value Of Disruptive Innovation May Be Great, It Is Difficult To Foresee

Inventions can usefully be classified according to two parameters, one relating to the degree of "disruption" of the invention, the other related to the breadth or scope of the invention. The degree of disruption of an invention can be characterized as ranging from "sustaining" innovation to "disruptive" innovation, and breadth can be characterized as

ranging from "incremental" to "breakthrough". As has been described by Clayton M. Christensen in his book, *The Innovator's Dilemma*,[5] sustaining technologies foster improved product performance and maintain the general nature of the product. As such, sustaining innovation can be viewed as the improvement of existing technology.

Disruptive technologies, on the other hand, can result in worse product performance as compared to existing products, but address a need of the marketplace, frequently in a drastically new way. Disruptive innovation can thus be embodied in inventions which support "a new way of thinking" or which "change the paradigm" in a given area. For example, notebook computers can be considered to be an established technology, with improvements in battery life and screen brightness being classified as sustaining innovation, whereas hand-held digital appliances, and systems and methods for allowing them to perform specialized functions—all of which can be performed on notebook computers—can be considered disruptive innovation with respect to notebook computers. The hand-held devices, while having performance and functionality that is clearly inferior to a powerful notebook computer, satisfy a marketplace need and contain features to which consumers ascribe value.

In both sustaining and disruptive innovation, the invention may be incremental or breakthrough. An incremental, sustaining innovation would be a small, but important improvement to an existing technology, process or product. Incremental, disruptive innovation refers to a small but innovative invention that forms a part of, or supports, a disruptive technology. Breakthrough innovation refers to inventions that encompass an entirely new approach to solving a problem associated with either a sustaining or disruptive technology. For example, the invention of the microprocessor[6] itself could be considered to be a breakthrough, with subsequent innovations that improved speed and

5. Clayton M. Christensen, THE INNOVATOR'S DILEMMA (2003).

6. *See* US Patent Nos. 3,821,715 and 3,753,011.

performance being incremental inventions. The advent of hand-held digital appliances included breakthrough inventions in that field, followed by numerous incremental inventions.

Inventors and entrepreneurs, by their basic nature, are largely driven to find a "radical" new way of doing things and are thus more likely to develop a disruptive technology than a sustaining technology. In the high technology industry, startups typically are not given financing to develop an incrementally better microprocessor or computing platform, or to develop a slightly improved content storage device; rather, investors seek inventors who can envision and develop a "revolutionary" product or service. The small, entrepreneurial inventor is thus often in the position of developing a product or service that has no current market. It may be comparable to an existing market—in the same way that the automobile market was once comparable to the horse and buggy market—but if the invention is, like the automobile, truly disruptive, then such comparisons may not be particularly useful in determining whether the costs of pursuing innovation will eventually be out weighed by the returns. In other words, because markets for disruptive technologies cannot necessarily be readily ascertained ("markets that don't exist can't be analyzed"[7]) it may not be possible, *ex ante*, to determine the economic value of a patent which covers a disruptive technology, or to establish a reasonable royalty rate for the patent. As an example, as noted by Christensen, forecasts of sales of disruptive disk drive technologies were completely wrong whereas forecasts for sustaining drive technologies were very accurate.[8] Given the inability to predict the market size and acceptance for a technology covered by a particular patent covering a disruptive technology, it is virtually impossible to determine a present value for it.

Thus, the inventor in this position, and the venture capitalist or other investor choosing to support the inventor, must make certain assumptions. Foremost among these is the assumption

7. Christensen, *supra* note 7, at xxv-xxvi.

8. *Id.* at 166-68.

that, if and when a patentable innovation emerges from the inventor's work and the investor's capital, the patent will have the bundle of rights normally associated with property—including, perhaps most importantly, the right to exclude others for a period long enough to develop the market. Because of the inherent uncertainty attendant to disruptive innovation, inventors with patents to disruptive technologies will frequently choose to exclude others from manufacturing products covered by the patented technology until the marketplace evolves sufficiently to price and adopt the disruptive technology. The patent holder in such a case cannot establish traditional notions of irreparable harm or insufficiency of damages because there is no existing market to use as a baseline. Additional burdens of proof in this context thus punish the truly innovative inventor and result in decreased access to capital for such inventors and a strong disincentive for them, particularly small businesses and solo inventors, to disclose their disruptive innovations as part of the patent bargain.

B. The Creators Of Disruptive Innovations Are Often Non-Manufacturing Entities Or, As Here, Entities Unable To Sustain A Manufacturing Business At The Time Of the Innovation

Innovators associated with small businesses are statistically more prolific inventors, and are inventors of patents that, when measured by the number of citations, are likely to be more fundamental. According to U.S. Government statistics, small businesses produce 13 to 14 times more patents per employee than large patenting firms and these patents are twice as likely as large firm patents to be among the one percent most cited. UNITED STATES SMALL BUSINESS ASSOCIATION, OFFICE OF ADVOCACY, FREQUENTLY ASKED QUESTIONS 1 (2005), *at* http://www.sba.gov/advo/stats/sbfaq.pdf. American innovation is taking place in small businesses. The small businesses and individual inventors that hold patents are much more likely to be non-manufacturing entities then large corporate patent holders, given that they are frequently early-stage companies or entities that lack easy access to capital.

Given that these smaller inventors—the very ones that create important innovations—are unlikely to have the means to productize, manufacture and market them, it is critical to ensure that they can anticipate full enforcement of their exclusive rights. It is precisely the full enforcement of those exclusive rights that allows the inventor to use those rights for access to capital to allow production, or to effectively license those rights to larger manufacturing entities. Here, the remedy and the right are one and the same: to enforce the right to exclude, the inventor must be entitled to prohibit use by others, even if a fully-developed marketplace does not yet exist for the invention or the small inventor is not yet a direct participant in the marketplace. Under these circumstances, a traditional analysis of irreparable harm and adequacy of legal remedies may be impossible, but the right must still exist. Failure to provide adequate remedies to enforce these rights will severely undermine inventors' ability and motivation to develop the valuable innovative technologies and will also chill investment in those innovations due to additional uncertainty.

C. Courts Are Particularly Ill-Suited To Valuing Disruptive Innovation On A Prospective Basis, Whereas Efficient, Well-Developed Markets Exist To Do So For Both The Inventions And The Patents Protecting Them

The role of patents as business tools is well understood. Companies and inventors use patent rights to establish economically favorable relationships with competitors, vendors, and even customers, and those relationships are often the cornerstone of modern businesses. Although reports vary widely as to the actual dollar amount associated with patent licensing, it is generally acknowledged that patent licensing is a multi-billion dollar industry. Kamil Idris, INTELLECTUAL PROPERTY: A POWER TOOL FOR ECONOMIC GROWTH 7 (WIPO 2003), *at* http://www.wipo.int/freepublications/en/intproperty/888/wipo_pub_888_1.pdf ("PricewaterhouseCoopers in 1999 found that the global IP licensing market totaled more than US$100 billion".). In addition to cross-licensing and the value, as measured

in actual cash payments between licensees and licensors associated with that cross-licensing, there is an active market for patents themselves, which are being sold in private and public transactions with increasing frequency.[9] *See* Don Clark, *Inventors See Promise in Large-Scale Public Patent Auctions*, WALL STREET J., March 6, 2006, at B1. This market—the developing market for patent rights themselves rather than the inventions they describe—is perhaps the purest possible expression of the ideas underlying Congress's patent system.

This thriving market in intellectual property owes its existence to the fact that patent rights are like property: freely transmissible and alienable and backed up with well-understood, predictable legal remedies sufficient to give them real value. Of course, sophisticated market participants may disagree as to the value of a given innovation, the scope of a given patent or even the patent's chances in litigation. Those differences of opinion are what make markets possible, but the market is not served by uncertainty as to *remedies*. If a patent is found to be valid and infringed, investors and inventors alike must have certainty that they will be able to exclude the infringer from continued use—the addition of new burdens of proof in that area frustrates expectations both prospectively and, importantly, retrospectively for those market participants who have already invested (often millions of dollars) in existing patents.

Valuation of patents, especially patents covering disruptive technologies, is complex even for sophisticated market participants. Although numerous techniques exist for valuing patents,[10] and entire businesses exist to do so—including *Amici's*—the final determination of the fair market value of a

9. For example, current Internet resources trading in such rights include: *Ocean Tomo: Intellectual Capital Equity*, *at* http://www.oceantomo.com/auctions.html; *Free Patent Auction: Where Inventions Are Sold*, *at* http://www.freepatentauction.com/; *IP Auctions: The Intellectual Property Marketplace*, *at* http://www.ipauctions.com/; *IP-Trader*, *at* http://www.ip-trader.com/; *Patent Show*, *at* http://www.patentauction.com/.

10. *See, e.g.*, Richard Razgaitis, EARLY STAGE TECHNOLOGIES 73-86 (1999).

patent is simply the price at which the patent is transferred between a willing buyer and a willing seller, each having reasonable knowledge of all pertinent facts and being under no obligation to buy or sell. Studies of patent value suggest, along with valuation methods based on cost of patent application preparation and filing,[11] that, based on replacement cost, the mean value of a patent in the marketplace[12] is approximately $10,000 to $12,000, with a small percentage of patents having marketplace values of hundreds of thousands of dollars, and an even smaller percentage having values of millions, tens of millions or even hundreds of millions of dollars. This is consistent with *Amici's* experience in reviewing tens of thousands of patents for potential purchase. Although *Amici* are not aware of statistics on the value the marketplace puts on patents, it is clear that there is a robust market for patents, as evidenced by the sale and auctioning of patents held by companies including Motorola, Ford, and Clorox.[13] It is also *Amici's* experience that the marketplace is becoming particularly adept at locating patents that may have exceptional value and that may represent disruptive technologies that are beginning to be adopted by the marketplace. In these instances values of hundreds of thousands or even millions of dollars can be, and are, ascribed to those patents. The fact that large manufacturing entities would agree to sell patents, and that other entities will purchase them for cross-licensing and licensing purposes, is indicative of a healthy, open marketplace in which technology rights can be sold, bought and put to use by the appropriate manufacturing or non-manufacturing entities.

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11. Cost of filing is one valuation methodology. *Id* at 33-40. Average filing costs are tabulated annually and published by the American Intellectual Property Association, AIPLA REPORT OF THE ECONOMIC SURVEY (2005).

12. Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, U. PENN. LAW SCHOOL, SCHOLARSHIP AT PENN LAW, PAPER 51 at A5, *at* http://lsr.nellco.org/upenn/wps/papers/51.

13. *See* OCEAN TOMO SPRING 2006 LIVE PATENT AUCTION OFFERING CATALOG (2006), *at* http://www.oceantomo.com/auctions.html.

Congress has acknowledged that the marketplace is more efficient at ascribing values to patents than are lawmakers or the courts. It is not the role of the courts to become a compulsory licensing body simply because an inventor or patent holder has made an economic decision to exclude others from producing an invention—even where the patent holder itself opts not to produce it. Congress and the courts have long made the assumption that patent holders are (generally speaking) rational, profit-maximizing actors. If that it the case, as noted above, the patent injunction provides no "unfair advantage" to the patent holder. Eventually, assuming the invention has value to the public, the patent holder and enjoined infringer will reach licensing terms that provide the benefits of the invention to the public while at the same time justly compensating the patent holder for the invention. If they do not, the market will provide a non-infringing solution and the patent holder will get nothing. Assuming that the invention genuinely has value to the public and the patent is valid and survives litigation and additional PTO review, one of those two outcomes *must* result, and the public should be indifferent as to which of the two wins out in the end.

The recent, well-publicized litigation between Research In Motion (makers of the Blackberry email device) and NTP has served to illustrate this point. Despite the protestations of the infringer and the public outcry regarding the possible loss of a valuable service, the market participants reached an economic agreement: one in which the patent holder reaped a financial reward and the infringer was allowed to continue to operate. *Amici* find it particularly interesting to note that, despite cries of "hold-up" in the mainstream press, the increase in market capitalization due to the settlement of the litigation more than made up for the payment to the patent holder.[14]

14. According to data reported at Yahoo! Finance, RIM has approximately 185.2 million shares outstanding. Its closing price on Friday March 3, 2006 was $71.92; the case settled after the close of trading for a payment of $612.5 million and trading opened on Monday

(Cont'd)

This was the Court's holding in *Continental Paper Bag* and *Amici* respectfully submit that holding was, and remains, correct. It has been the basis for nearly a century of decisions and analyses by inventors and investors and it should not be disturbed. The courts are ill-suited to playing the role of the market forecasters in determining the value of patents, especially those involving disruptive technology or developing markets; under these circumstances a court may, in all good faith, mistakenly assign a royalty rate that discounts or ignores the strategic value of the patent as the marketplace evolves. Only a willing buyer—fully informed of the patent, risks associated with the patent, and the marketplace—is able to place a dollar value on that patent and the rights associated with it.[15]

D. Adding Uncertainty To The 150 Year-Old Rules Of Patent Remedies Will Frustrate Expectations And Destroy Value In The Underlying Markets For Both Inventions And The Patents Themselves

The long standing rules of patent remedies have, for 150 years, maintained the value in patents by providing the patent holder with the right to exclude others from use of the invention when the patent is upheld as valid and infringed. Adding additional burdens of proof, balancing tests, or otherwise requiring a more explicit vetting of equitable factors will add

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March 6, 2006 at $81.14. RIM's market cap thus increased over $1.7 billion on news of its $612.5 million payment.

15. The use of the term "dollar value" here also glosses over another important limitation facing courts. If the court has any power at all to craft a prospective legal remedy for infringement (which is open to some question) it is certain that such a remedy would be limited to money damages. Often, however, money is not the only important term in technology licensing transactions. Courts are particularly ill-suited to crafting and enforcing complex licensing regimes that may include unique provisions such as sub-licensing rights, derivative works rights, technical support, use limitations, cross-licenses, payment schedules, most-favored-nation provisions, indemnification clauses and a host of other provisions.

substantial uncertainty to patent remedies. Adding such uncertainty has the fundamental, economic effect of radically devaluing patent rights and destabilizing the market for those rights.

As noted above, the addition of a complex layer of proof (as opposed to the current system of rebuttable presumptions) between the finding of infringement and validity and the application of a remedy for that finding can only add uncertainty to the patent process. If the Court today abandons its position in *Continental Paper Bag* and lays out new requirements for successful patent plaintiffs seeking injunctive relief, the lower courts will have to interpret that guidance which, as a practical matter, will create tremendous uncertainty. The very high rates of reversal by the Federal Circuit indicate that the lower courts simply are not well-suited to patent analysis; adding more such analysis will only compound the problem. The added uncertainty and potentially decreased chance of obtaining an injunction will greatly decrease the deterrent incentive that infringers currently face, and will encourage infringement and litigation associated with those infringements.

These issues become even more serious if the Court bases any new position on an analysis of the patent holder's business model or the type of patent at issue: for example, a new standard applicable only to non-manufacturing entities or "business model" patents. Such distinctions can be very difficult to draw, and in some cases are not static. If the Court announces a new standard applicable only to non-manufacturing entities, are the lower courts to retain jurisdiction over every patent case, so that injunctive relief can be revisited each time the patent rights change hands from a non-manufacturing entity to a potential manufacturer? What standards are the lower courts to use in determining whether, in the face of a complex cross-licensing deal, the real parties in interest are manufacturing entities or not? What if plaintiff is a manufacturing entity, but does not manufacture products in the field of the patents at issue? What precisely defines a "business model" patent—does a complex

financial model fall into that category? Does the software used to implement that model belong in that category? Courts have traditionally avoided this kind of categorization precisely because they are not equipped for it. If it becomes a part of the patent relief analysis it can only add uncertainty to a market that requires well established and predictable enforcement rights.

With over 1,900,000 utility patents currently in force,[16] erosion of the patent rights through modification of the present injunction rule would cause a substantial decrease in the value of existing patent portfolios. Not only would the average value of patents decrease—a decrease of only 10% on an average value of $12,000 per patent resulting in a loss of over $2 billion in value—but patents covering breakthrough technologies would be significantly undermined. It is extremely difficult to quantify how great the loss in value to existing patent portfolios might be if the Court were to substantially increase the burdens on patent holders seeking injunctions for their valid and infringed patents, but in *Amici's* experience that diminution could be as much as fifty percent. Clearly, such an erosion of value would work an enormous hardship on one of the most important and growing sectors of the American economy: the market for intellectual property rights.

IV. This Court Should Not Attempt To Remedy Perceived Issues Of Patent Quality By Introducing Further Uncertainty At The Remedy Stage

As the Court is aware, perceived issues of patent quality currently plague the U.S. patent system. Petitioner, and some *Amici* herein (in particular *Amici* Yahoo! and the Computer & Communications Industry Association), have suggested that patent quality is suffering due to an inability of the PTO to locate the most relevant prior art and to make appropriate determinations with respect to obviousness. The economic motivations of the PTO itself have also been called into question

16. This is based on approximately 2.4 million issued patents that are within term, of which approximately 500,000 are not active due to failure to pay maintenance fees or intentional abandonment.

due to, *inter alia*, examiner incentives to allow applications and fee-funding issues that may arise if liberal allowances are seen to encourage additional filing. *Amici* have also cited reports and other literature which they believe detail a multitude of other problems causing and surrounding patent quality.

It is beyond dispute that the PTO is currently overwhelmed. With pendency times for patents approaching four years in some technology areas,[17] there is no doubt that the PTO needs help in dealing with the increasing number of inventions being presented to it. The increasing number of applications is only to be expected as a result of the tremendous sharing of information now being provided by the Internet. This sharing should fundamentally improve the amount and quality of innovation, and it is not—as some might suggest—something to be afraid of. But this undeniable strain on PTO resources and its effect, if any, on patent quality cannot be addressed through modifications to patent remedies. Such efforts can only have the effect of "throwing out the baby with the bathwater" by diluting the rights of "good" patents along with those which may be of "questionable" quality. In fact, the perverse result of attempting to address patent quality at the remedies stage is that the patents that have survived the crucible of litigation over validity and infringement—those patents that are most likely to be "good" patents—would be weakened by the additional burdens aimed at the class of patents to which they have just demonstrated they do not belong.

Furthermore, requiring a patent holder to address these burdens at the remedy stage—to establish irreparable injury and inadequacy of legal remedy—would in most cases require a detailed examination of the merits of the invention in the marketplace. Thus, the patent plaintiff who has just survived (and paid for) a searching validity analysis including questions of obviousness and market utility, would be forced to address

17. USPTO 2005 PERFORMANCE AND ACCOUNTABILITY REPORT 4, 22-23 (2005), *at* http://www.uspto.gov/web/offices/eom/annual/2005/2005annualreport.pdf.

precisely those questions *once again* in seeking a remedy. The infringer, in the meantime, would be gaining to a second bite at the apple (presumably before a judge this time) having already lost on these issues before the jury.

In short, addressing actual or perceived patent quality issues by introducing uncertainties into remedies simply cannot work. Attempting to "fix" a regulatory or property scheme by increasing the legal burden on the purportedly stronger party cannot be effective in the long term. As Judge Posner has written in the context of contractual interpretation:

> The idea that favoring one side or the other in a class of contract disputes can redistribute wealth is one of the most persistent illusions of judicial power. It comes from failing to consider the full consequences of legal decisions. Courts deciding contract cases cannot durably shift the balance of advantages to the weaker side of the market; they can only make contracts more costly to that side in the future, because franchisors will demand compensation for bearing onerous terms.

Original Great American Chocolate Chip Cookie Co., Inc. v. River Valley Cookies, Ltd., 970 F.2d 273, 282 (7th Cir. 1992). The same principle applies here: any effort to "make up for" perceived imbalances in the patent system by increasing the burdens on patent holders seeking injunctions will eventually be worked out by the marketplace in the form of higher costs for innovation. As Judge Posner put it, in the end "everyone will pay for the loss of legal certainty that ensues when legal principles are bent however futilely to redistributive ends." *Id.*

Patent quality issues are currently addressed through existing mechanisms in the courts and at the PTO. Although the plaintiff in a patent infringement suit has the benefit of the presumption of validity of the patent, that validity is challenged extensively during the course of litigation. In addition, the defendant can force the patent into reexamination, requiring the PTO to look at the matter anew with additional references. Modification of the criteria for injunctive relief cannot, and

should not, provide the basis for a new mechanism for testing the validity of issued patents. Cases relating to obviousness and other indicia of validity have come before this Court in the past and will soon do so again. If Congress will not deal with issues of patent quality, such cases give the Court ample opportunity to do so, but attempting to fix such a problem by addressing a general remedy will only increase uncertainty and exacerbate the existing issues.

CONCLUSION

The judgment of the court of appeals should be affirmed, and the Court should not disturb its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908) or the general rule that, in the usual case, injunctive relief is appropriate where infringement and validity of a patent have been proved.

Respectfully submitted,

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IN THE

Supreme Court of the United States

EBAY, INC. and HALF.COM, INC.,

Petitioners,

—v.—

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AMICUS CURIAE BRIEF OF TEVA PHARMACEUTICALS USA, INC. IN SUPPORT OF NEITHER PARTY

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INTEREST OF THE *AMICUS CURIAE*

Amicus curiae Teva Pharmaceuticals USA, Inc. ("Teva") is a recognized leader in the research, development, manufacture and distribution of low-cost generic pharmaceuticals.[1] Teva's generic drug products are used by consumers throughout the United States, and are available through drugstores, hospitals, managed care entities, and government agencies. As a result of their research and development activities, Teva and its affiliates have been awarded more than 150 U.S. patents, and currently have hundreds of patent applications pending before the United States Patent and Trademark Office.

Teva has no interest in any party to this litigation or any stake in the outcome of this case. Nor does Teva have a position as to which party should ultimately prevail. The questions to be decided in this case, however, are important to Teva as both a holder of valuable patents and as a party that is frequently the subject of patent infringement suits intended to keep its generic drugs off the market.

It is important to Teva as a patent holder that injunctions remain in the arsenal of remedies that district courts may employ in patent infringement

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[1] The parties have consented to the filing of this brief, and letters of consent have been filed in accordance with Supreme Court Rule 37.3. In accordance with Supreme Court Rule 37.6, *amicus curiae* states that this brief was not authored, in whole or in part, by counsel to any party, and no monetary contribution to its preparation or submission was made by any person or entity other than the *amicus curiae*.

actions. At the same time, Teva believes that a blanket rule requiring the grant of an injunction in every case in which infringement is found, subject only to a narrow exception for "exceptional cases" implicating public health, will lead to inequitable results, and is contrary to the letter and spirit of 35 U.S.C. § 283. Teva submits this *amicus curiae* brief because it believes that, as a pharmaceutical company, it can offer the Court a different perspective from that of the parties to this case concerning the significant inequities that would result from an automatic injunction rule.

SUMMARY OF THE ARGUMENT

One of the questions before the Court is "[w]hether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement." A rigid rule requiring automatic injunctions in all patent cases absent "exceptional circumstances" is contrary to the explicit language of 35 U.S.C. § 283 as well as this Court's precedents. Such a rule would require district courts to grant injunctions in situations in which equity dictates that they should not.

In particular, a basic principle of equity is that an injunction should not issue if the conduct to be restrained is merely "trifling" and causes no injury to the plaintiff. It has become commonplace in the pharmaceutical industry, however, for a charge of patent infringement to be based on the presence of a *de minimis* or "trifling" amount of a patented substance in a drug product that is otherwise not patented. One district court has already recognized that granting an injunction against the sale of a drug product that

infringes a patent solely because the product contains a minute quantity of the patented material would amount to "a travesty of equity." *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp.2d 1011, 1045-46 (N.D. Ill. 2003), *aff'd on other grounds*, 365 F.3d 1306 (Fed. Cir. 2004). A rigid rule that compels the grant of an injunction except in "exceptional circumstances" would cast in concrete the "travesty" that the district court recognized.

Such a draconian application of the injunctive remedy is not required by statute or by precedent. Indeed, this Court has made clear that district courts have broad discretion to grant or deny injunctive relief. *See, e.g., Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-13 (1982). The traditional equitable discretion afforded to district courts may not be limited absent "a clear and valid legislative command." *Id.* at 313 (quoting *Porter v. Warner Holding Co.*, 328 U.S. 395, 398 (1946)). With respect to patent cases, Congress has issued no such directive limiting the discretion of district courts to award or deny injunctions. On the contrary, 35 U.S.C. § 283 expressly preserves the district courts' traditional equitable discretion by providing that injunctions in patent cases "may" be granted "in accordance with principles of equity."

A ruling confirming that, pursuant to section 283, injunctions in patent infringement actions are available, but not mandatory, will ensure that the decision whether to grant an injunction in a patent infringement action, as in any other action, will be left to the discretion of the district courts to be exercised in accordance with traditional equitable principles.

ARGUMENT

I. CONGRESS DETERMINED THAT DISTRICT COURTS SHOULD EXERCISE DISCRETION IN GRANTING OR DENYING INJUNCTIONS IN PATENT CASES

As this Court made clear long ago, and has confirmed on several occasions since, an injunction "'is not a remedy which issues as of course.'" *Weinberger*, 456 U.S. at 311 (quoting *Harrisonville v. W. S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933)). Accordingly, when Congress authorizes district courts to issue injunctions for violations of a statute, as it did in 35 U.S.C. § 283, it "hardly suggests an absolute duty to do so under any and all circumstances." *Weinberger*, 456 U.S. at 313. On the contrary, "[u]nless a statute in so many words, or by a necessary and inescapable inference, restricts the court's jurisdiction in equity, the full scope of that jurisdiction is to be recognized and applied." *Id.*

35 U.S.C. § 283 does not, either explicitly or by inference, restrict the scope of a district court's traditional equitable jurisdiction when it is fashioning relief in a patent infringement action. On the contrary, section 283 confirms that courts in patent infringement actions should consider the same equitable factors in deciding whether to issue injunctions as they would in any other case:

> The several courts having jurisdiction of cases under this title *may* grant injunctions *in accordance with the principles of equity* to prevent the violation of any right secured by patent, *on such terms as the court deems reasonable*.

(Emphasis added.)

This Court has confirmed that courts "'must presume that [the] legislature says in a statute what it means and means in a statute what it says there.'" *Dodd v. United States*, 125 S. Ct. 2478, 2482 (2005) (quoting *Conn. Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992)). In section 283, Congress deliberately used the phrase "may grant injunctions," rather than "must grant injunctions." This Court has construed the term "may" in similar circumstances as "either conferring or confirming a degree of equitable discretion." *United States v. Rodgers*, 461 U.S. 677, 708 (1983) (Section 7403 of the Internal Revenue Code construed to provide courts with equitable discretion to order sales of family homes). This "common-sense" construction "conforms to the even more important principle of statutory construction that Congress should not lightly be assumed to have enacted a statutory scheme foreclosing a court of equity from the exercise of its traditional discretion." *Id.* Indeed, even when a statute includes more mandatory language, it will not be construed to require the court to grant injunctive relief under all circumstances. *See Hecht Co. v. Bowles*, 321 U.S. 321, 329-30 (1944) (statutory provision that injunctions "shall" issue for violations of the Emergency Price Control Act construed not to require issuance of an injunction in every case in which a violation is found because neither the history nor the language of the statute compelled the conclusion that "Congress had intended to make such a drastic departure from the traditions of equity practice").

The Federal Circuit has no authority to rewrite section 283 to make injunctions mandatory in patent cases. As this Court recently reiterated, courts are "not free to rewrite [a] statute that Congress has enacted.

"When the statute's language is plain, the sole function of the courts – at least where the disposition required by the text is not absurd – is to enforce it according to its terms.'" *Dodd*, 125 S. Ct. at 2483 (2005) (quoting *Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A.*, 530 U.S. 1, 6 (2000)). *See also Tyler v. Cain*, 533 U.S. 656, 663 n.5 (2001) ("Even if we disagreed with the legislative decision . . . we do not have license to question the decision on policy grounds.").

Indeed, earlier Federal Circuit decisions recognized that section 283 made injunctions in patent cases discretionary, not automatic. For example, in *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993), the Federal Circuit acknowledged that district courts are "given broad discretion under 35 U.S.C. § 283 (1988) to determine whether the facts of a case warrant the grant of an injunction and to determine the scope of the injunction." Similarly, in *Roche Prods., Inc. v. Bolar Pharms. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), the Federal Circuit stated that "[s]ection 283, by its terms, clearly makes the issuance of an injunction discretionary." The *Roche* emphasized that "[i]f Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language." *Id.* at 867.

Before the creation of the Federal Circuit and its nationwide jurisdiction over appeals in patent cases, other circuit courts likewise acknowledged that section 283 gave district courts discretion to grant or deny injunctions based on traditional equitable principles. For example, in *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974), the court stated:

> An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. 35 U.S.C. § 283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance.

To the extent the decision below requires that, absent an imminent public health risk, an injunction must be granted in every case in which patent infringement is found, it improperly circumscribes a district court's equitable discretion, which Congress expressly preserved in 35 U.S.C. § 283. Teva urges this Court to confirm that district courts have discretion to grant – or deny – injunctive relief on a case by case basis in accordance with equitable principles.

II. AN INFLEXIBLE NEAR-AUTOMATIC INJUNCTION RULE WOULD RESULT IN INJUNCTIONS THAT ARE INEQUITABLE AND CONTRARY TO THE PUBLIC INTEREST

The difference between a *per se* rule requiring a district court to grant an injunction in virtually every action in which it finds infringement and a rule that permits the exercise of judicial discretion has very real consequences to the generic drug industry and to the public, which benefits from the availability of low cost drug products.[2] One recurring situation in which equity counsels against the grant of an injunction arises when the conduct to be enjoined causes no harm to the

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[2] *See, e.g.*, Fed. Trade Comm'n, *Generic Drug Entry Prior to Patent Expiration* (2002), *available at* http://www.ftc.gov/gs/2002/07/genericdrugstudy.pdf.

plaintiff. Specifically, an automatic injunction rule could force district courts to enjoin the sale (and, accordingly, the use by consumers) of generic drug products that are found to contain *de minimis* amounts of a patented substance, even though the presence of such substances creates no benefit for the manufacturer and causes no economic harm to the patent owner. In a time when the rise in medical costs substantially outpaces the rate of inflation, it is especially important that the Court not announce a rule that would unjustifiably prohibit the marketing of such products.

As background, drug products typically contain one or more "active ingredients" – chemical compounds that are effective in treating the condition for which the drug product is indicated. Only a small fraction of the pharmaceutical patents, however, claim new pharmaceutically active ingredients. *See* Correa, *Patent Laws, TRIPS, and R&D Incentives: A Southern Perspective* 9-15 (Comm'n on Macroecon. and Health, CMH Working Paper Series No. WG2:12, 2001), *available at* http://www.cmhealth.org/docs/wg2_paper12.pdf. Most pharmaceutical patents are second or third generation patents that claim, for example, processes for manufacturing previously patented compounds, particular formulations that contain previously patented compounds, or particular crystalline forms of previously patented compounds.[3] It has even become common to patent

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[3] Many pharmaceutical compounds are solids in which the molecules of the compound are arranged in three-dimensional space in a repeating pattern, referred to as a crystalline form. Some solid-state compounds can exist in more than one crystalline form. For a

the barely detectable impurities in a bulk active ingredient that are created as unwanted by-products of the manufacturing process.

After the basic compound patent on an active ingredient expires, these second and third generation patents are often asserted against potential competitors in an effort to extend the time during which the drug can be marketed free from competition. In certain of these cases, the charge of infringement is based solely on the alleged presence of a *de minimis* amount of a patented substance in a drug that is otherwise in the public domain. These minute quantities of patented materials have no, or at least no significant, therapeutic or commercial value. In fact, drug makers would prefer not to market products containing such materials, but cannot practicably remove them. Although the presence of those undesired patented materials is not commercially significant, the Federal Circuit has indicated that the sale of the bulk product containing such a material is an infringement of any patent that might cover it. *SmithKline Beecham*, 365 F.3d at 1315. The question the Federal Circuit has not decided explicitly is whether a request for injunctive relief to prevent such infringement must be granted.

Although the Federal Circuit has not addressed this issue, at least one district court has carefully considered it and has denied a request for injunction in two separate cases. In *SmithKline Beecham, supra*, Judge Posner, sitting by designation, explained in detail why granting an injunction in such circumstances would be a "travesty of equity." In that case, the drug at issue was

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general discussion see *SmithKline Beecham*, 247 F. Supp.2d at 1016-17.

the antidepressant paroxetine, which Smithkline marketed as Paxil. The basic patent on paroxetine had expired before the suit was brought, and the patent in suit was a second generation patent claiming a particular crystalline form of paroxetine, known as the "hemihydrate" form. Apotex sought FDA approval to market a generic equivalent of Paxil containing a different crystalline form of paroxetine, known as the "anhydrous" form, which was in the public domain. SmithKline nevertheless brought suit against Apotex seeking an injunction to prevent Apotex from marketing its generic Paxil product. SmithKline's claim was that although the vast bulk of Apotex's product consisted of the unpatented form, it also included a small amount of the patented hemihydrate. 247 F. Supp.2d at 1045-46.

The district court found that SmithKline would not be entitled to an injunction even if it could prove that Apotex's tablets contained the patented form, and therefore infringed its patent. The court pointed out that:

> An injunction is a substitute for an award of damages in situations in which damages are difficult to calculate or are otherwise inadequate as a remedy for the wrong done by the defendant to the plaintiff . . . . It is not to provide relief when the damages are known to be zero. . . .

Id. at 1045. The court reasoned that the presence of an inconsequential amount of the patented hemihydrate in Apotex's product would not provide "a competitive advantage that could inflict a loss on SmithKline," since Apotex's sales of the patented form would be essentially zero. *Id.* at 1046. Any economic harm that SmithKline would suffer would be due to legitimate competition from Apotex's public domain substitute:

> [A]ny injury that SmithKline sustains from the fact that minute amounts of its product creep into Apotex's generic product will be due not to the invasion of any interest that patent law protects, but merely to the fact that the existence of a public-domain substitute for a patented product injures the patentee by providing competition.

Id. at 1048. The court concluded by holding that: "To provide relief in such a case would be to invite a form of extortion." *Id.* at 1045. On appeal, the Federal Circuit affirmed the judgment, but on alternative grounds.

Similarly, in *Abbott Labs. v. Andrx Pharms., Inc.*, No. 05 C 1490, 2005 U.S. Dist. LEXIS 10846, at *9 (N.D. Ill. June 3, 2005), one of the patents in suit claimed a compound that was alleged to form as an impurity during production of the antibiotic drug clarithromycin, which Abbott marketed as Biaxin. Abbott sought a preliminary injunction barring sales of the defendants' generic Biaxin products based on the presence in those products of "trace amounts" – about one part per million – of the patented impurity. The court refused to grant a preliminary injunction based on alleged infringement of this patent because Abbott "suffers no competitive disadvantage" from the presence of a minuscule amount of the patented impurity in the defendants' products. *Id.* at *45. Accordingly, "Abbott has not suffered and could not prove monetary damages even if [the patent] had been infringed." *Id.* at *44.

Over the years, several similar patent infringement actions have been brought seeking to enjoin the marketing of generic equivalents of unpatented drugs based on the presence of minute quantities of patented

impurities. *See, e.g., Glaxo Group Ltd. v. Torpharm, Inc.*, 153 F.3d 1366, 1373-74 (Fed. Cir. 1998) (Patentee sought to bar sale of a generic equivalent to Zantac based on the alleged presence of 0.5 percent of a patented crystalline form in the accused product.). Some of these actions are currently pending. A mandatory injunction rule would not only unfairly restrain manufacturers from putting their products on the market, it would also have a deleterious impact on the public. The availability of low-cost generic pharmaceuticals results in significant savings for consumers. A broad, automatic injunction rule could force district courts to enjoin the marketing of such drugs in situations in which equity would be disserved by doing so.

The district court's approach in *SmithKline Beecham* and *Abbott* – rejecting a *per se* rule – is consistent with this Court's precedents and with older precedents from patent cases. In *Consolidated Canal Co. v. Mesa Canal Co.*, 177 U.S. 296, 302 (1900), this Court held that "it is familiar law that an injunction will not issue . . . to restrain an act the injurious consequences of which are merely trifling." This general rule that a court will not grant an injunction to prevent a "trifling" injury has been applied on several occasions by courts in patent infringement actions. For example, in *Condenser Corp. v. Micamold Radio Corp.*, 145 F.2d 878, 880 (2d Cir. 1944), the accused product was found to infringe the patent in suit, but "only lamely and spasmodically." Judge Learned Hand refused to grant an injunction, finding that:

> [I]n the case of patents as elsewhere there comes a point where what may be literally a wrong, is of too trifling importance to justify the intervention of a court. This is such a case; we will not enjoin the

> defendant's machine for a detail, obviously so useless in function. Moreover, it would be equally unwarranted to give judgment for damages or profits; for it is inconceivable that the infringement, if there is any at all . . . could add a cent to the defendant's profits, or could interfere in the slightest degree with the plaintiff's sales.

Id. (citation omitted). Similarly, in *Pratt v. United States*, 43 F. Supp. 461 (Ct. Cl. 1942), the patentee acknowledged that the accused product infringed its patent only occasionally. It argued, however, that "even if the defendant . . . did not use its [invention in an infringing manner] except by inadvertence or unskillfulness, yet the mechanism was an infringement because it was capable of so operating, and did, on occasion, so operate." *Id.* at 475. The court denied injunctive relief, finding that:

> We do not think that the monopoly of a patent covers another device, constructed in good faith to operate upon a principle different from that involved in and intended by the patent, merely because it is impossible or impracticable to construct the other device so that it can be operated without inadvertently or unskillfully, upon occasion, infringing upon the outside boundaries of what might seem literally to be within the patent.

Id. at 475-76.

The foregoing description illustrates a specific, but nevertheless highly consequential, situation in which an inflexible rule requiring the imposition of injunctive relief for patent infringement is both inequitable and contrary to the public interest. This Court should confirm that the imposition of an injunction in a patent case should be in accordance with traditional equitable principles.

CONCLUSION

For the foregoing reasons, Teva respectfully urges the Court to confirm that 35 U.S.C. § 283 "means what it says," and that district courts have discretion to grant or deny injunctions in patent cases in accordance with equitable principles. This flexible approach will prevent the issuance of injunctions that are grossly inequitable to both manufacturers and consumers.

January 26, 2006 Respectfully submitted,

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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF TIME WARNER INC., AMAZON.COM, INC., CHEVRON CORP., CISCO SYSTEMS, INC., GOOGLE INC., IAC/INTERACTIVE CORP., INFINEON TECHNOLOGIES AG, SHELL OIL COMPANY, VISA U.S.A., INC., AND XEROX CORPORATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

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INTERESTS OF *AMICI CURIAE*[1]

Amici are major corporations that are leading providers of goods and services in high technology industries. *Amici* own thousands of valuable patents that are integral to their businesses. They manufacture and distribute goods and services that contain numerous subsidiary components that are patented and employ many processes that are patented.

As holders and licensees of valuable patents, *amici* are keenly aware of the need for effective remedies against infringement, and they strongly support the availability of injunctive relief in appropriate cases. At the same time, however, *amici* are also frequently the subject of patent suits, including many suits that make abusive use of the patent system to extract lucrative settlements that are disproportionate to the value of the litigated patent. *Amici* therefore have a strong interest in ensuring that the remedial rules governing patent cases are fair to both plaintiffs and defendants.

Amicus Time Warner Inc. is a leading global media and entertainment company with businesses in filmed entertainment, interactive services, television networks, cable systems and publishing media, including America Online, Time Inc., Time Warner Cable, Home Box Office, New Line Cinema, Turner Broadcasting System and Warner Bros. Entertainment. A frequent innovator on the forefront of technology, Time Warner has pioneered such industry-shifting products as the DVD and digital cable. It holds numerous patents relating to its products and services.

Amicus Amazon.com, Inc. is one of the world's largest and best known online retailers. It operates websites where, along

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[1] Counsel for all parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court. No counsel for either party had any role in authoring this brief, and no person other than the named *amici* and their counsel has made any monetary contribution to the preparation and submission of this brief.

with other retailers, it offers millions of unique, new, refurbished and used items in a broad array of categories. In providing this innovative service, Amazon.com employs many patented technologies.

Amicus Chevron Corporation is a leader in the energy industry. Chevron explores for and produces oil and natural gas, including complex deep water exploration and production in the Gulf of Mexico and around the world. Chevron also transports natural gas in the United States through pipeline systems and liquefied natural gas around the world in special tankers; refines oil into fuels, lubricants, and base chemicals; and develops several advanced energy technologies such as fuel cells, hydrogen storage and gas-to-liquid products. These activities involve numerous complex process that are the subject of patents, and the products Chevron sells frequently contain patented components such as additive packages.

Amicus Cisco Systems, Inc. is a recognized leader in Internet technology. It sells software, hardware such as routers and switches, and services that together provide fast, durable, and secure networks over the Internet for business, education, government, and home communications. These products incorporate many patented components and processes.

Amicus Google Inc. is a global technology leader whose mission is to organize information and make it universally accessible. Google maintains one of the world's largest online indices of websites and other content. Its automated search technology helps people obtain nearly instant access to relevant information from its vast online index, and its AdWords program provides targeted, online advertising for the products and services of its partners. In providing these products and services, Google uses many patented technologies.

Amicus IAC/InterActiveCorp is a diversified e-commerce company whose businesses are leaders in numerous sectors of the Internet economy. IAC's operating businesses include Ask Jeeves, Citysearch, Entertainment Publications, Evite,

Gifts.com, HSN, Interval International, LendingTree, Match.com, ServiceMagic, and Ticketmaster. Due to their high visibility, IAC and its businesses receive frequent licensing demands and litigation threats from holders of patents of questionable technological value, most of whom do not practice their patents.

Amicus Infineon Technologies AG is a leading innovator in the semiconductor industry with locations throughout the United States, Europe, and Asia. It designs, develops, manufactures, and markets a broad range of semiconductors and complete system solutions for a wide range of industries. Its products, used in virtually every application from cell phones to supercomputers, are integral for wireless and wireline communications, automotive, industrial, computer, and security and chip card markets. Its innovative technologies and products are covered by thousands of patented components and processes.

Amicus Shell Oil Company is a leader in the energy industry. It engages in exploration, production, refinement, and transportation activities throughout the world. In addition, Shell develops and employs technologies relating to wind energy generation, solar photovoltaic, and other alternative energy sources such as coal gasification, biofuels, geothermal, and hydrogen. These activities frequently involve complex processes that are the subject of numerous patents, and the products it manufactures and sells frequently contain patented components.

Amicus Visa U.S.A., Inc. is part of a worldwide association of more than 21,000 financial institutions offering Visa-brand payment services, including Visa-brand credit cards. These services include an extensive system for approving and processing charges involving millions of merchants and cardholders as well as thousands of banks daily. Multiple components of this system, including a range of business methods and technological features, consist of or contain patented elements.

Amicus Xerox Corporation is a technology and services enterprise that helps businesses deploy Smarter Document Management[SM] strategies and better ways to work. Xerox offers an array of innovative document solutions, services and systems including digital presses, printers, multifunction devices and associated supplies, software and support. Xerox holds thousands of patents relating to the hardware, software, and services it offers.

SUMMARY OF ARGUMENT

The Federal Circuit's rule that injunctions should issue virtually automatically in patent infringement actions is wrong as a matter of statutory construction and historic principles of equity. It also has grave practical consequences for the operation of high-technology companies. By effectively eliminating equitable discretion over injunctive relief, the Federal Circuit's rule invites or requires injunctions that impose costs on manufacturers that are wholly unrelated to the value of the patent infringed, and as a result give patentees the leverage to extract vast windfalls. Under such circumstances, injunctions do not serve the goal of the patent system to promote innovation but turn that system on its head.

The automatic injunction rule can lead to grossly inequitable results affecting technology-dependent businesses. First, it can do so when an infringement claim concerns a minor element of a complex good or service. Where a minor but nonetheless infringing component is embedded in a complex process in which a firm has invested significant fixed capital, an injunction can force the manufacturer to shut down or retool the entire process, incurring enormous expense. In such circumstances, the threat of an automatic injunction enables patent litigants to leverage patents that themselves have low value into disproportionately valuable settlements.

Second, the availability of automatic injunctive relief can enable holders of dubious patents to use them to extract

lucrative license fees through threats of litigation. Holders of patents having little technical merit may nonetheless assert broad claims that significantly overlap a manufacturer's operations. Because patent infringement is easy to assert, while patent invalidity is difficult to prove, and patent litigation is very expensive, the threat of a virtually automatic injunction can induce a patent defendant to pay high fees for a license even where the patent would likely be invalidated if protracted litigation were endured.

Third, both these sorts of windfalls from the automatic injunction rule have encouraged the rise of a new class of professional patent litigants that operate as holding companies for patent portfolios rather than inventors or practitioners. The automatic injunction rule encourages these non-practicing entities to seek disproportionate returns on their patents through litigation or the threat of litigation. Such litigation further burdens a court system already overstretched by the rise in patent litigation.

Finally, automatic patent injunction can impose significant burdens on consumers and the public interest that are not covered by the Federal Circuit's narrow exception for extraordinary and imminent harm to public health. They include, for example, the loss of access to medically needed procedures or vital communication networks.

The automatic injunction rule not only imposes costs on producers and the public, but also distorts the patent system and undermines the goal of innovation that it is meant to serve. The goal of the patent system is "[t]o promote the Progress of . . . useful Arts." U.S. CONST. art. I, § 8, cl. 8. But the rule encourages opportunistic litigation that diverts resources that could be used to develop innovative new products and processes, and distorts the focus of the research that does take place. The automatic injunction rule also encourages abusive practices at the Patent Office, such that

patent applicants spend more time inventing patents than patenting inventions.

These costs to technology producers are unnecessary, as patent law provides patent holders with other powerful remedies. The Federal Circuit's unique rule for patent injunctions therefore should be overturned and patent law should return to the traditional, flexible approach to injunctive relief employed in other areas of federal law. Under traditional balancing of the equities, district courts that are closest to the facts could take into account such factors as the burden that an injunction would impose upon a defendant to break up fixed capital investment, the defendant's ignorance of a patent while making such investments, the technical value of the patented product or process, the plaintiff's actual practice or licensing of the patent at issue, and the plaintiff's conduct at the Patent Office and after issuance. Injunctive relief could still issue under such a flexible approach where appropriate on traditional grounds.

ARGUMENT

In the decision below, the Federal Circuit held that the plaintiff was "entitled," and had a "right," to a permanent injunction, *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), even though the district court, which was closest to the facts, had denied such an injunction based upon weighing the equities in the case. The Federal Circuit thus foreclosed, for patent infringement cases, the application of well-established principles of equity over which trial courts have discretion in all other areas of federal law. *See, e.g.*, *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (noting that the propriety of injunctive relief depends upon (i) whether the plaintiff will suffer irreparable injury, (ii) whether the plaintiff has an adequate legal remedy, (iii) whether the injunction serves the public interest, and (iv) whether the balance of hardships tips in favor of the plaintiff).

Instead, the Federal Circuit has required that injunctions issue virtually automatically upon a finding of patent infringement.

This unique and inflexible approach conflicts with the plain text of the Patent Act, which provides that district courts "*may*" grant injunctive relief "in accordance with the principles of equity" and "on such terms as they deem reasonable." 35 U.S.C. § 283 (emphasis added). It is also at odds with prior tradition by which the federal courts had interpreted this statutory language to confer the same equitable discretion in patent cases that is enjoyed in other types of cases. *See, e.g., Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) ("An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance." (citation omitted)).[2] Nothing in the purposes or practical realities of patent law requires the Federal Circuit's rigid rule.

I. THE AUTOMATIC INJUNCTION RULE GRANTS PATENT HOLDERS LEVERAGE TO EXTRACT UNJUST WINDFALLS

Patent injunctions are potent remedies. They can force a defendant to shut down a production line or withdraw a product from the market altogether, with potentially grave results. *See* ADAM B. JAFFE & JOSH LERNER, INNOVATION

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[2] Although the Federal Circuit initially appeared to recognize the district courts' statutory and traditional discretion in patent infringement actions, *see Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs. v. C.R. Bard, Inc.*, 977 F.2d 558, 560 (Fed. Cir. 1992), that court has since granted permanent injunctions increasingly reflexively, even though it inconsistently still balances the equities for preliminary injunctions. *See* HERBERT F. SCHWARTZ, PATENT LAW AND PRACTICE 193-97 (4th ed. 2003).

AND ITS DISCONTENTS 113-14 (2004) (noting that one patent injunction cost Kodak $200 million in losses and 4,500 lost jobs). A firm that tries to design around an injunction and fails will find itself in contempt proceedings. The threat of such an automatic remedy can become a powerful club in the hands of some patent litigants, enabling them to extract license fees disproportionate to the value of the patent, and to impose significant additional social costs.

A. The Automatic Injunction Rule Allows Patent Litigants To Extract Disproportionately Valuable Settlements In Cases Involving Complex Products And Services

The Federal Circuit's automatic injunction rule provides no exception for injunctions that would effectively prevent the use of an entire complex product line or service when the patent in question covers only a minor element of that product or service. In such cases, the decision below compels courts to issue grossly inequitable injunctions that allow patent litigants to leverage narrow patents into returns far exceeding their intrinsic value.

Today's complex goods and services contain numerous hardware and software components. Some of these components are central to those products, while others serve only minor functions that could be served by other products or processes. As patents increase exponentially in number,[3] many of the components needed to produce a single product—even minor components—are potentially subject to patent infringement claims. "In some industries, such as computer hardware

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[3] In the last two decades, the number of patent applications filed with the United States Patent and Trademark Office ("USPTO") has more than tripled, from 125,931 to 409,532, and the number of patents issued has doubled, from 77,400 to 157,900. *See* USPTO, PERFORMANCE AND ACCOUNTABILITY REPORT, FISCAL YEAR 2005, at Table 2 (2005), http://www.uspto.gov/web/offices/com/annual/2005/060402_table2.html.

and software, firms can require access to dozens, hundreds, or even thousands of patents to produce just one commercial product." FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 6 (2003) ("FTC REPORT"), http://www.ftc.gov/os/2003/10/innovationrpt.pdf. In nearly all industries and especially in the high technology field, a manufacturer thus must navigate through an ever denser "thicket" of patents to ensure that the many components it employs to make a single product are noninfringing.[4]

If a manufacturer is aware of such a patent in advance, it can often avoid any infringement claim by negotiating a reasonable license, designing around the patent, or replacing it using a noninfringing alternative. For this reason, patents covering minor elements of a product or service often have little or no value in themselves. *See, e.g.*, WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 320 n.52 (2003) (noting that over 95% of patents are unlicensed and 97% generate no royalties).

But the sheer number of patents and complexity of manufacturing processes often prevent such advance knowledge of potential patent infringement by a minor component. Technology producers invest enormous fixed capital in complex manufacturing processes and software programs. Even where it would have been relatively easy to design around a patented element in advance, doing so once huge fixed costs have been incurred is not. To the contrary, it can be enormously expen-

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[4] Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, *in* 1 INNOVATION POLICY AND THE ECONOMY 119, 119-22 (Adam Jaffe *et al.* eds., 2001). *See also* FTC REPORT at 31 (noting that the "growth of the knowledge-based economy presents several challenges to the patent system . . . [including] the sheer number of patents sought and received").

sive to incorporate a new noninfringing minor element into a larger manufacturing process or software program.[5]

Most manufacturing processes now use process-control systems based on information technology. These systems contain small controllers and other components that are manufactured for incorporation into larger process-control systems. While such components have relatively little market value, the systems into which they are integrated are so intertwined with manufacturing processes that their removal can shut down the entire manufacturing process.

Even if a new minor component can be integrated into a complex product or service, launching and testing it can be very expensive. For example, a change in semiconductor manufacturing equipment, even if small, might require re-qualification of the equipment by most or all of the customers using that equipment, which can take months of work by each customer to make sure the change does not affect the quality of the customer's final product. Many other manufacturers, particularly regulated manufacturers like medical device companies, face similar difficulties.

Similarly, a new software subroutine cannot simply be substituted for an older infringing one. The different subroutines in large software programs frequently have unexpected interactions with each other, and it is therefore necessary to spend considerable time "debugging" software programs before releasing them to the public.[6] And because

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[5] *See, e.g.*, Rosemarie Ziedonis, *Patent Litigation in the U.S. Semiconductor Industry*, *in* PATENTS IN THE KNOWLEDGE-BASED ECONOMY 191 (Wesley M. Cohen & Stephen A. Merrill eds., 2004) (noting that a facility for producing computer chips can cost more than $1 billion).

[6] *See, e.g.*, James Bessen, *Open Source Software: Free Provision of Complex Public Goods*, RESEARCH ON INNOVATION, at 5 (2005), http://www.researchoninnovation.org/opensrc.pdf (noting that most of the cost of software "arises from testing, debugging and consumer maintenance (that is, fixing bugs or providing work-arounds after product release)").

software is frequently distributed to many client applications, changing it is more challenging than swapping one hardware module for another.

The delay associated with incorporating a new element into an existing product can also be costly. During the time it takes to install new equipment on a production line or debug new software, a manufacturer might lose significant sales to its competitors. It might also be forced to recall and replace products used by its consumers, incurring additional costs to its reputation and good will if customers blame the disruption on the manufacturer. *See* Samson Vermont, *The Economics of Patent Litigation*, *in* FROM IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY 350 (B. Berman ed., 2002).

Given the practical realities of today's technology-dependent operations, it is easy to see why the automatic injunction rule enables patent litigants to hold up technology companies in infringement cases for settlements far exceeding the intrinsic value of a patent. An injunction against use of a minor patented feature embedded in a complex manufacturing process or software program not only will stop use of that element, but also will trigger the heavy additional costs of retooling, retesting and delay described above. For most companies that have invested fixed capital in design, development or manufacturing, the risk of an injunction against even a minor component of its production is "unacceptable." Steven Z. Szczepanski, *Licensing or Settlement: Deferring the Fight to Another Day*, 15 AIPLA Q. J. 298, 301 (1987).

For example, a patent holding company that does not make a product obtained a recent injunction against Research In Motion, Ltd., the maker of the popular wireless BlackBerry product and services. *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1287 (Fed. Cir. 2005), *cert. denied* 74 USLW 3371 (U.S. Jan. 23 2006) (No. 05-763). Although the injunction shutting down RIM's BlackBerry service was stayed

pending appeal, the Federal Circuit ultimately upheld the district court's ruling. *Id.* In December 2005, RIM faced the prospect of a shutdown of its network and services as a result of the injunction. Ian Austen, *Bye Bye BlackBerry? A Patent Dispute Threatens To Cut Executives Off*, N.Y. TIMES, Dec. 3, 2005, at C1. While in theory RIM might have designed around the infringed patent claims, in practice RIM was unable to do so because of the risk and expense of altering an aspect of a complex network. *Id.*

To avoid the issuance of such an injunction, a rational manufacturer might well settle with the patent holder, taking a license for a fee that is less than the cost imposed by the injunction but more than the fair value of the patent.[7]

B. The Automatic Injunction Rule Enables Patent Holders To Reap Lucrative License Fees From Patents Of Dubious Technical Merit

Automatic injunctions increase the leverage patent holders can exert not only where narrow patents are asserted against elements of complex products, but also in cases of broad, vague patents of dubious technical merit. Patent law seeks to "stimulate the efforts of genius" by "holding out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period." *Pennock v. Dialogue*, 27 U.S. 1, 19 (1829) (Story, J.). To encourage inventors to incur "enormous costs in terms of time, research, and development," *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), they "must expect that once commercialization occurs, product prices can be held above postinvention production and marketing costs" long enough for them to recoup the costs of their the front-end investments. F.M. SCHERER &

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[7] *See, e.g.*, Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 512-20 (2003); JAFFE & LERNER, *supra*, at 111; Ziedonis, *supra*, at 191.

DAVID ROSS, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 622 (3d ed. 1990).

These policies are not served by technically questionable patents that teach little to those skilled in the art. But the automatic injunction rule creates opportunities for even scientifically marginal patents to receive supracompetitive returns. When such patents are asserted against capital-intensive technology-dependent industries and backed by the threat of an automatic injunction, they take on economic value out of proportion to their technical merit. "Considering that a bad patent verdict could cripple or destroy a company, many target companies make the difficult but practical decision to take a license, even when the asserted patent is suspect." Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 4 (2005).

The classic practitioner of such sharp dealing with dubious patents was the late Jerome Lemelson, a prolific procurer of patents and frequent patent litigant. By 2004, Lemelson's foundation was the owner of approximately 185 unexpired patents and many pending patent applications. *See Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found., L.P.*, 422 F.3d 1378, 1380 (Fed. Cir. 2005). Lemelson alleged that some of those patents covered the use of bar codes on commercial products. Rather than suing companies that market and manufacture bar-code readers, Lemelson sued companies that simply used these machines, typically settling for an amount just under the expected cost of litigation. *See* Nicholas Varchaver, *The Patent King*, FORTUNE, May 14, 2001, at 214-16. In this way, he earned hundreds of millions of dollars in licensing fees. *See id.*; *see also* Stewart Yerton, *The Sky's the Limit*, THE AMERICAN LAWYER, May 1993, at 64.

The Lemelson bar code patents arose from applications filed in 1954 and 1956. *Symbol*, 422 F.3d at 1380. Thus, Lemelson asserted in the marketplace a patent monopoly *fifty*

years after the alleged inventions. Eventually, the manufacturers of bar code scanners filed a declaratory judgment action and forced a trial to determine validity, resulting in a decision that the patents were invalid, not infringed and unenforceable. *See Symbol Techs., Inc. v. Lemelson Med., Educ., & Research Found., L.P.*, 301 F. Supp. 2d 1147 (D. Nev. 2004), *aff'd*, 422 F.3d 1378 (Fed. Cir. 2005). With respect to validity, the trial court found that the patent claims were not enabled because the technical disclosure in the Lemelson patents did not teach one of ordinary skill in the art how to build and use a bar code scanning system. *Id.* at 1165-66. But for years before this trial, aided by the leverage of the automatic injunction rule, Lemelson was able to reap hundreds of millions of dollars in royalties.

The leverage exercised by Lemelson reflects unique structural aspects of the patent process that drive up the actual and threatened cost of patent injunctions. Unlike traditional property rights, patent rights are defined by the patentee. Real property consists of a plot of land with fixed metes and bounds defined by deed. The value of personal property is determined by how much a buyer is willing to pay in the market for a physically definite object. Copyright attaches once original content is fixed in tangible form; copyright law protects but does not define that content. *See* 17 U.S.C § 102.

In contrast, patentees themselves, together with the examiners in the Patent and Trademark Office, define the scope of the property protected by patent law. Patent coverage is defined by the "claims" set forth by the patentee. 35 U.S.C. § 112. Each patent contains many claims of varying scope. *See* ROBERT C. FABER, LANDIS ON MECHANICS OF PATENT CLAIM DRAFTING 191-93 (1990). Each claim is a separate invention, and each claim is considered independently valid.

35 U.S.C. § 282. Patent applicants have strong incentives to draft claims broadly.[8]

Not only do patent applicants create the scope of their own property, but they do so *ex parte* at the Patent Office. *See* SCHWARTZ, *supra*, at 30. This means that those who may be affected by the scope of the patent right—the public and potential infringers—have little or no say about the rights being granted until the patent issues. *Id.*; *see also* Chan & Fawcett, *supra*, at 10 (noting that third-party reexamination procedures are generally ineffective). There is no need to actually build a working model or do any technical work to apply for a patent. The applicant need only convince the Patent Office that the technical disclosure would teach those of skill in the art to build the claimed invention. The exponential increase in patent applications often causes overworked patent examiners to rely on patentees to explain technologies. And unlike in trademark law, the patentee has no later obligation to convince the Patent Office that it engages in continued use.

Once a patent issues, it is presumed to be valid. 35 U.S.C. § 282. This presumption has important practical consequences. While infringement is easy to assert, invalidity is difficult to prove. Accused infringers must overcome the high evidentiary burden of proving "clear and convincing" evidence that a patent is invalid. *Oakley, Inc. v. Sunglass Hut Int'l*, 316 F.3d 1331, 1339 (Fed. Cir. 2003). In addition, patent infringement and validity both raise fact questions for the jury, usually involving expert testimony. As a result, dismissal on the pleadings is not available, and summary judgment motions can usually only occur after fact and expert discovery have closed and the trial judge has conducted a

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[8] Indeed, patent attorneys have a professional responsibility to seek the broadest possible claims for their clients. *See Solomon v. Kimberly-Clark Corp.*, 216 F.3d 1372, 1382 (Fed. Cir. 2000).

Markman hearing to construe the claims—subject to *de novo* review by the Federal Circuit.

In light of the complexity of claim construction, the heavy reliance upon expert testimony, the difficulty juries have assessing evidence of infringement, and *de novo* appellate review of claim construction, patent defendants can rarely be entirely sure of victory, irrespective of the strength of an invalidity defense. Patent litigation is also extremely expensive. The "industry rule of thumb" is that "any patent infringement lawsuit will easily cost $1.5 million in legal fees alone to defend," and for patent suits involving damage claims of more than $25 million, expenses can increase to $4 million per side.[9]

In addition to all these reasons not to challenge the validity of dubious patents, a successful validity defense gives a free ride to a defendant's competitors. Under *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), if a patent is found invalid in an earlier lawsuit, an alleged infringer can rely on this judgment for issue preclusion in a later suit. Thus, any patent defendant has reduced incentive to fight for a judgment of patent invalidity, because a favorable ruling would benefit the defendant's competitors at no cost to them. *See* Joseph Scott Miller, *Building A Better Bounty: Litigation-Stage Rewards For Defeating Patents*, 19 BERKELEY TECH. L. J. 667, 668-69 (2004).

The automatic injunction rule compounds the risk of losing an infringement case under these conditions of high litigation cost, outcome uncertainty, and structural asymmetries that favor the patent holder and discourage the litigation of patent validity. It thus allows even broad, vague patents of dubious

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[9] WENDY H. SCHACHT & JOHN R. THOMAS, PATENT REFORM: INNOVATION ISSUES 7 (2005) (internal citations omitted); *see also* JAFFE & LERNER, *supra*, at 14 (noting the indirect costs of patent litigation).

technical merit to be used as leverage to extract lucrative license fees.[10]

C. The Automatic Injunction Rule Encourages The Rise Of Non-Practicing Patent Litigants

Well aware of the above dynamics, a new class of professional patent litigants has appeared in recent years. *See* SCHACHT & THOMAS, *supra*, at 9 & n.12 (noting that such entities are often called "patent trolls"). These litigants do not practice their patents, seek to develop new products based on their patents, or enter into licenses with companies that want to develop the innovations covered by those patents. Instead, they seek out companies that have independently developed similar innovations and then either sue them or extort licenses out of them based upon the threat of suit.

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[10] Other examples of broad, vague patents that can benefit disproportionately from the automatic injunction rule are those related to industry standards. In many technology fields such as networking, telecommunications and computer manufacturing, various components and equipment must be able to interconnect with each other and have compatible software. The Internet depends upon such interoperability. Accordingly, the public good is well served by organizations through which technology producers cooperate to set interoperability standards. Patent holders, however, can craft patent claims that specifically cover such standards. Once a particular industry has agreed to adopt the standard, the capital invested is significant, and the threat of injunction, immense. Many standards organizations therefore condition membership on agreeing to disclose pending patent applications and license intellectual property that covers the standard on fair and reasonable terms. *See* Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1904 (2002); Janice M. Mueller, *Patent Misuse Through the Capture of Industry Standards*, 17 BERKELEY TECH. L.J. 623, 635-36 (2002). For the patent holder who is not a manufacturer and not a member of the organization, however, there are no such counterbalancing forces, and the automatic injunction threat becomes a potent weapon. Thus, even an innocent adopter of an existing interoperability standard based on technology developed by reputable vendors can face liability as a patent litigant selects its targets.

Some such repeat patent litigants focus upon buying dormant, unexploited patents.[11] For example, the Acacia Technologies Group, which controls more than 140 patents, describes itself as a company that "develops, acquires, and licenses patented technologies"; it employs more lawyers and accountants than engineers, and its engineers reportedly evaluate rather than develop technologies.[12] Other frequent patent litigants are failed market participants who turn to litigation after unsuccessfully attempting to commercialize technologies allegedly related to their patents.[13]

The automatic injunction rule gives such sophisticated professional patent litigants additional leverage to extract unjust settlements and license fees. The non-practicing patent plaintiff has no capital investments or technology of its own at stake. A company's own patent portfolio is "a shield or bargaining chip in a traditional IP dispute" between competitors, but is of little value against a plaintiff that does not practice its patent or make products. Chan & Fawcett, *supra*,

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[11] *See* Stephen A. Merrill *et al.* eds., A PATENT SYSTEM FOR THE 21ST CENTURY 31 (2004); James Bessen & Michael Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1 (2005).

[12] Acacia Research Corp., About Us: Corporate Profile, http://www.acaciaresearch.com/aboutus_main.htm (last visited Jan. 23, 2006); *see* Steven M. Cherry, *Company Profile: The Patent Profiteers*, IEEE SPECTRUM, June 2004, at 38-41; *see also* Danny Fortson, *The Big Squeeze*, IP LAW & BUS., Nov. 2004, at 19 (discussing Intellectual Ventures); John Markoff, *Mystery Bidder Obtains Internet Patents*, N.Y. TIMES, Dec. 7, 2004, at C6 (discussing JGR Acquisitions Inc.); Ian Austen & Lisa Guernsey, *A Payday for Patents 'R' Us*, N.Y. TIMES, May 2, 2005, at C1 (noting that the founders of NTP, the plaintiff in the RIM BlackBerry case, designed it as "a kind of virtual company" to "make money from . . . patents").

[13] *See* Kirk L. Kroeker, *Forgent Sues 31 Companies for JPEG Royalties*, TECHNEWSWORLD, Apr. 23, 2004, http://www.technewsworld.com/story/33518.html (discussing Forgent Networks).

at 4. Without products at stake on both sides of the dispute, there is "no leverage to create an incentive for a cross-license or other business resolution." *Id.* But these factors, which might have been taken into account to preclude injunctive relief under traditional balancing of the equities, are of no help to a patent defendant under an automatic injunction rule.

The Federal Circuit's rigid injunction rule, by increasing professional patent litigants' incentive to sue, exacerbates the already serious burden that patent litigation imposes on judicial resources.[14] Although no separate figures detail what portion of the huge increase in patent suits over the last decade is due to professional patent litigants, their simultaneous rise is not mere coincidence.[15] By providing additional incentives to sue, and by making abusive litigation based upon low-value or technically dubious patents economically attractive, the rule deepens this already serious challenge to the administration of justice.

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[14] Between 1994 and 2004, the number of patent suits has increased from 1,600 to over 3,000 – an increase nearly six times the overall increase in civil cases. *See* ADMINISTRATIVE OFFICE OF THE U.S. COURTS, JUDICIAL FACTS AND FIGURES, at Table 2.2 (2005), http://www.uscourts.gov/judicialfactsfigures/alljfftables.pdf. Moreover, when patent cases are litigated, they are more likely than other cases to go to trial. *See, e.g.*, Bessen & Meurer, *supra*, at 3 (noting that patent cases go to trial at twice the overall rate for civil suits). Finally, patent trials tend to be lengthy: almost 10% of patent trials require 20 or more days of trial, compared to less than 1% of all civil cases, and it is not unusual for a patent trial to last for several months. *See, e.g.*, M. Patricia Thayer *et al.*, *Examining Reexamination: Not Yet An Antidote To Litigation*, 5 SEDONA CONF. J. 23, 26 (2004).

[15] *Amici* have experienced a substantial rise in suits by professional patent litigants. Some *amici* estimate that such suits account for two-thirds to three-quarters of their patent dockets.

D. The Automatic Injunction Rule Allows Patent Litigants To Gain Despite Significant Social Costs

The Federal Circuit acknowledges a possible exception to its automatic injunction rule in "exceptional" cases in which there is a "need to use an invention to protect public health." *MercExchange*, 401 F.3d at 1338-39. This exception is so rarely applied, however, as to be effectively meaningless. The Federal Circuit thus, as a practical matter, ignores the public interest that has been a traditional concern of equitable relief. Its rigid rule ensures that in some cases, patent plaintiffs will be able to impose social costs apart from the increased costs that producers will pass along to their customers.

A recent and troubling illustration is provided by a patent infringement case between two competitors in the medical device market. *See Mallinckrodt Inc. v. Masimo Corp.*, No. 00-6506, 2004 U.S. Dist. LEXIS 28518 (C.D. Cal. July 12, 2004). The patents involved in this case related to pulse oximetry, which measures the amount of oxygen being carried in a patient's blood. It is crucial for doctors to know patients' blood oxygen levels, especially for premature babies, those under anesthesia and those suffering respiratory distress. Inadequate blood oxygen can lead to blindness, brain damage and death.

Following a six-week trial in the Central District of California in 2004, a jury determined that Nellcor had willfully infringed four of Masimo's patents and assessed damages of $134 million. *Id.* at *5. On post-trial motions, the district court judge reversed the jury's finding as to one of the patents and reversed the finding of willfulness as to all the patents. *Id.* at *111-*12. The court held a bench trial finding that Masimo had improperly procured one of its patents by intentionally misleading the Patent Office. Significantly, the trial judge denied Masimo's request for injunction, not only because Masimo had unclean hands, but also because doctors

testified that an injunction "would likely compromise patient safety by forcing health professionals to switch back and forth between types of oximeters." *Id.* at *103.

In an unreported opinion, however, the Federal Circuit reversed the district court's denial of the injunction. *Mallinckrodt, Inc. v. Masimo Corp.*, 147 F. App'x 158, 175-78 (Fed. Cir. 2005). It stated that "it is contrary to the laws of property to deny a patentee the right to exclude others from use of his property." *Id.* at 178 (citing the decision below). Such a decision makes clear that the public health exception to the Federal Circuit's automatic injunction rule is so narrow as to be illusory.

Moreover, an exception for public health takes no account of other widespread harms that automatic injunctions can cause to the public. For example, in the BlackBerry case described above, 3.65 million BlackBerry users would be deprived of service if an injunction were enforced against RIM. Hence the Department of Justice raised concerns about the public interest in the Government's robust communication capabilities. *See* Yuki Noguchi, *Government Enters Fray Over BlackBerry Patents*, WASH. POST, Nov. 12, 2005, at D01. Thus the automatic injunction rule can permit patent litigants to inflict vast disruption on established communication networks on which many depend.

* * *

In sum, the Federal Circuit's rule guaranteeing injunctive relief upon a finding of infringement gives patent litigants a weighty club with which to back up shake-down threats that force settlements and license fees disproportionate to the patent's value. It does so both with respect to narrow patent claims over components of complex processes and broad patent claims of dubious technical merit. It encourages the rise of professional patent holding companies that speculate and litigate rather than innovate. And it fails to account for

important aspects of the public interest, including even matters of consumer health and communication. For these very practical reasons, the holding below should be reversed.

II. THE AUTOMATIC INJUNCTION RULE UNDERMINES THE GOALS OF THE PATENT SYSTEM AND DISTORTS PATENT PRACTICE

A. The Automatic Injunction Rule Discourages The Useful Innovation That the Patent System is Intended to Promote

The Constitution empowers Congress to authorize granting patents "[t]o promote the Progress of . . . useful Arts." U.S. CONST. art. I, § 8, cl. 8. As this Court has repeatedly recognized, the goal of patent law is to encourage innovation and bring new designs and technologies into public use. *See, e.g., Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (noting that patent law "seeks to foster and reward invention [and] to stimulate further innovation"); *see also Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 401 (1911) ("The purpose of the patent law is to stimulate invention.").

By encouraging abusive litigation in the ways described above, the automatic injunction rule disserves this constitutional purpose. First, by encouraging abusive litigation, the automatic injunction rule saps resources that would otherwise be available for research and innovation. The litigation encouraged by the rule diverts resources that might be more productively used to develop and improve products. Every dollar spent defending against patent suits, especially abusive ones based upon low-value or scientifically dubious patent claims, is a dollar that could be spent more productively on research and development. Moreover, the money spent actually litigating patent cases represents only the tip of the iceberg. Professional patent plaintiffs make most of their

money by simply threatening to bring litigation and thereby extracting disproportionate licensing fees.

Second, the risk of litigation distorts business operations. For smaller firms, the risk of litigation is a major consideration in deciding whether to engage in research and development. Aware that they cannot afford the time and expense of patent litigation, many smaller companies reduce or alter their research and development efforts. *See* JAFFE & LERNER, *supra*, at 15. The research and development decisions of larger companies are affected as well. To avoid patent litigation, these companies often seek defensive patents that they would not otherwise prosecute, thereby reducing the funds available for additional research and development. *See id.* at 58; Ziedonis, *supra*, at 181-83. They also forego pursuing smaller innovations because it is safer to use old components and processes that are clearly in the public domain or for which they already own the patents.

These consequences effectively turn the patent system on its head, undermining its goal of promoting innovation. The automatic injunction rule does not encourage patent holders to exploit their inventions or encourage others to do so to the benefit of the public. To the contrary, it allows patent holders to lie low while others invest time and money in independently discovering their invention, developing it, and incorporating it into a successful product. Then, the patent holder can spring into action to extract a license fee commensurate not with the value of the patent but with the time and money the manufacturer has invested. Far from encouraging innovation, this threat "disrupts the ongoing process of innovation." JAFFE & LERNER, *supra*, at 58.

B. The Automatic Injunction Rule Encourages Counterproductive Practice In The Patent Office

The automatic injunction rule has feedback effects that reverberate back to the application process at the Patent Office. The Federal Circuit's removal of discretion from the courts that ultimately oversee Patent Office activities increases patent applicants' incentives to engage in self-serving practices that can amount to misuse of the system.

The patent process allows applicants to define their own property rights by filing claims of varying scope and to fashion them with enforcement strategy rather than accurate definition of the actual invention in mind. Thus, patent applicants can fashion claims to cover products already in the market or to cover what they perceive to be the direction of the market. Patent applications spawned from earlier inventions can issue and be enforced even while related litigation is pending. A patent owner can sue a defendant, learn about the accused product and defenses, and at the same time, craft patent claims to take the litigation defenses better into account.

The patent application process also does not fix patent rights in time. Patents can issue years after the applications are filed due to Patent Office backlogs and patentee delays. Patent applicants can file continuation applications to extend examinations. *See* 35 U.S.C. § 120; SCHWARTZ, *supra*, at 24-26. In the meantime, other firms might have invested considerable capital in complex plant or network equipment, licensed what they believe to be the rights they need to make and sell their products, and developed their product and service markets. Such practices can be fundamentally unfair to later-alleged infringers, yet ingorance of a patent or patent application is no defense to liability, *see Kewanee Oil*, 416 U.S. at 478 (denying an independent creation defense to patent infringement), and fraud on the Patent Office and

prosecution laches are exceedingly difficult to prove. See *Symbol*, 422 F.3d at 1385

Under traditional equitable principles, however, a court could take account of such sharp patent prosecution practices before issuing an injunction. For example, in determining the irreparability of harm to a plaintiff and balancing the hardships to the parties, a court could take account of when the company charged with infringement learned of the existence of a patent and how much capital it had invested in the technology later patented. It could also distinguish situations where the patentee has understandably extended a patent application while the "art of the pertinent field has become developed," FABER, *supra*, at 3 (noting that "the real 'essence of the invention' is sometimes not fully understood until many years later"), from those where the patentee merely lay in wait to increase its negotiating leverage and capture the benefits of others' technology investments.[16]

In contrast, the automatic injunction rule enables any late-issued patent, regardless of circumstances, to serve as a weighty club. A patent whose issuance is intentionally delayed and whose claims are cleverly drafted to take account of intervening developments (whatever the original invention might have been) can take on an economic leverage disproportionate to its intrinsic technical value.

The Federal Circuit's rule removes the trial courts as a potential check on such abusive practices at the Patent Office. Trial court discretion is especially important in the patent context because of the *ex parte* aspects of the application process. In a land office, the government surveys the

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[16] Equitable principles in a flexible injunction standard could also help curb post-issuance misconduct by patentees that does not rise to the level of unclean hands or patent misuse. *See, e.g.*, *Hynix Semiconductor Inc. v. Rambus, Inc.*, No. 00-20905 (N.D. Cal. filed Jan. 4, 2006) (denying unclean hands defense against patent holding company).

property, and in personal property transfers, the bona fide purchaser for value rule aplies. In the patent context, by contrast, patent holders define their own property rights. When applicants spend more time inventing patents than patenting inventions, they disserve the goal of advancing the "progress of . . . useful Arts." Re-introducing trial court discretion in granting equitable relief would restore a meaningful buffer against such practices and advance the patent system's goal of promoting innovation.

III. THE AUTOMATIC INJUNCTION RULE IS UNNECESSARY BECAUSE OTHER REMEDIES ARE ADEQUATE TO PROTECT INNOVATION

"The federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). As part of that careful balance, the patent laws include a comprehensive structure for remedying infringement that contains both mandatory and discretionary and both legal and equitable components.

The patent laws provide that "the court *shall* award the claimant damages adequate to compensate for the infringement" of the patent. 35 U.S.C. § 284 (emphasis added). Damages can be no less than "a reasonable royalty." *Id.* A patent holder active in the marketplace can also recover damages in the form of the profits it would have made had the defendant not infringed—*i.e.*, lost sales. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507-08 (1964); *Hebert v. Lisle Corp.*, 99 F.3d 1109, 1119 (Fed. Cir. 1996). Congress included few limitations on the mandatory compensatory damages. *See* 35 U.S.C. §§ 286 (time limita-

tion) & 287 (limitations related to the marking of patented products and notice of infringement).

In contrast to the mandatory nature of compensatory damages, a court has discretion to treble damages and award attorneys' fees in exceptional cases, for example in cases of willful infringement. 35 U.S.C. §§ 284-285. Similarly, the Patent Act calls for discretion with respect to equitable relief, providing that courts "*may* grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283 (emphasis added).[17] There is no statutory basis for the Federal Circuit's suggestion that injunctions are mandatory because patents confer exclusive rights; the statute is expressly permissive. Copyright and trademark laws create exclusive rights to intellectual property too, but injunctions in those fields are subject to standard equitable balancing. *See, e.g., Gucci America, Inc. v. Daffy's Inc.*, 354 F.3d 228, 235-39 (3d Cir. 2003); *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988).

The Federal Circuit's automatic injunction rule upsets the careful balance Congress created between mandatory and discretionary patent remedies. By eliminating equitable discretion, the rule not only makes mandatory a remedy Congress explicitly intended to be discretionary, but also distorts the monetary rewards received by patent plaintiffs, making

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[17] This Court's decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), is not to the contrary. That decision held that the nonuse of a patent does not deprive a court of jurisdiction to grant a patent holder equitable remedies. It did not, however, hold that injunctive relief is automatic regardless of whether a patent owner practices an invention. To the contrary, it expressly reserved the question: "Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, we do not decide." *Id.* at 430.

them a far cry from the mandatory compensatory remedy envisaged by Congress.

For example, patent holders who do not practice their patents are entitled to the fair value of the royalties that would have been earned on a license negotiated between the parties, but typically cannot prove damages for lost sales. *See Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108-10 (Fed. Cir. 1996). For a low-value patent, these damages frequently will be minimal and probably not worth the cost of litigation. The Federal Circuit's automatic injunction rule, however, changes the game. The enormous costs imposed by guaranteed injunctive relief create a prospect of lucrative settlements that far exceed the patent's merit, encouraging litigation that otherwise might not take place at all or that would result in far lower damage verdicts.

By contrast, a return to traditional equitable balancing would eliminate many such distortions. As factors that go to irreparable harm, adequacy of legal remedies, public interest, and the balance of hardship, the district courts could consider the burden of an injunction would impose upon a defendant to break up fixed capital investment, the technical value of the patented product or process, the plaintiff's actual practice or licensing of the patent at issue, and the plaintiff's conduct at the Patent Office and after issuance.

For example, a court might well deem injunctive relief unnecessary where a plaintiff does not practice the patent itself nor attempt to exclusively license it to others. In such a case, legal remedies might be sufficient to offset any loss if there is no irreparable or unquantifiable indirect injury to the plaintiff's competitive position.[18] Nor is the prospect of damages illusory. Juries have returned large verdicts for past infringement even to patent plaintiffs who have not invested

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[18] This is not to say that compulsory licensing would ever be appropriate, but only that here, discretionary injunctive relief would not.

capital in manufacturing and development. *See* Chan & Fawcett, *supra*, at 5-6 (noting that the plaintiff in *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005), obtained damages of $521 million). In addition to compensatory damages for past infringement, the threat of punitive damages and attorneys' fees for willful infringement will deter future infringement after a judgment.

Some patent owners who do not practice their intellectual property might argue that they should not be penalized for failing to have adequate capital to develop and manufacture products. But the automatic injunction windfall does not encourage investment in products. To the contrary, it encourages applicants to obtain as many patents with as broad coverage as possible, whether or not the applicants plan to invest in production or even know if the claimed inventions are possible to practice. Some patent owners might also argue that removing the automatic injunction rule would inhibit efficient secondary markets for patents. The prospect of large compensatory damages and treble damages for willful infringement, however, provide adequate financial reasons for individuals and firms to continue to buy, sell and license patent rights without wasteful investment in patent litigation as a business.

Under a flexible standard, injunctive relief against patent infringement would still remain available where appropriate to prevent irreparable harm to a patent holder. The paradigm example is perhaps where a seller makes unauthorized use of a competitor's patented device. Even where a patent holder does not practice a patent, injunctive relief might sometimes be appropriate—as for example in the case of a for-profit spin-off from a university technology transfer office that initially has only the brainpower of its academic inventors and an exclusive license as its assets. In such a case monetary damages might be insufficient to prevent irreparable harm to the spin-off's potential to produce innovative products.

Courts have long been tasked with weighing such factors when considering injunctive relief, and there is no reason to believe that they cannot return to doing so in patent cases. The prospect of large damages and the possibility of flexible equitable relief, or attorneys' fees and punitive damages for willful infringement provide adequate incentives for individual inventors to seek patent protection.

CONCLUSION

The Federal Circuit's judgment below should be reversed and this Court should instruct the lower courts to return to exercising their traditional equitable discretion when considering injunctions in patent cases as in all other cases arising under federal statutes.

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EBAY INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF THE UNITED INVENTORS ASSOCIATION AND TECHNOLOGY LICENSING CORPORATION AS *AMICI CURIAE* IN SUPPORT OF MERCEXCHANGE, L.L.C., ON THE MERITS

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INTERESTS OF AMICI CURIAE

The United Inventors Association ("UIA") is a non-profit organization devoted to building and strengthening the infrastructure of the independent inventor community. UIA members include local inventor organizations as well as individual inventors. In 1995, the UIA published the first edition of its Inventor's Resource Guide, a collection of articles and resource information designed to help those seeking guidance for the difficult process of developing and marketing their new product ideas. The Guide is distributed to each of the 83 Patent and Trademark Depository Libraries in the country and has also been available through the Small Business Development Center network. The UIA coordinates and works on the larger problems facing independent inventors that neither individuals nor groups alone would have the time or resources to pursue, including intellectual property and patent reform issues.[1]

Technology Licensing Corporation ("TLC") is a patent licensing business founded by J. Carl Cooper, a television engineer with over fifty U.S. patents to his name. In 1983, Mr. Cooper founded Pixel Instruments Corporation. Pixel manufactured audio and video signal processing equipment sold to television stations and networks worldwide. Mr. Cooper also licensed some of his patents, including, most significantly, a patent licensed to Sony Corporation directed to a video noise reduction circuit used in the Betamax video recorder. The patented circuitry performed so well for Sony

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[1] Pursuant to Supreme Court Rule 37.6, *Amici* state that no party or its counsel authored any part of this brief. No person or entity, other than *Amici* and its counsel, Bromberg & Sunstein LLP, contributed money for the preparation or submission of this brief. The parties have consented to the filing of this *amicus* brief. The consent letters have been lodged with the Court.

that it was copied by many other manufacturers. In addition, several other of Mr. Cooper's inventions were also being copied. Because the foreign competition had lower labor and overhead, it became difficult for Pixel to compete against the infringers and, consequently, turned to licensing and enforcement of Mr. Cooper's patents through the TLC entity.

TLC's and Mr. Cooper's licensing activities have brought about $100 million into the U.S. economy, mostly from foreign companies. This licensing income earned by the non-practicing entity, TLC, is essential to supporting Mr. Cooper, his engineering consultants, and Pixel Instruments. The licensed inventions benefit the public with cheaper and higher performance television products.

The *Amici* believe that the ability to obtain injunctions, whether or not the patent owner is practicing the invention, is important to the licensing efforts of independent inventors. Such licensing is essential to continued research and development efforts by inventors across the country and the world.

SUMMARY OF THE ARGUMENT

The district court's rejection of an injunction simply because MercExchange did not itself compete with eBay was the equivalent of requiring the inventor, Woolston, to build, finance, and manage a business to compete with a powerful company, such as eBay, before allowing him the right to stop continuing infringement. That ruling, which improperly considered whether the patent owner was using the invention, runs not only against this Court's precedent but also against sound policy.

Independent inventors, like those represented by the UIA and like Mr. Cooper, contribute disproportionately to technological innovation and to the American economy. But independent inventors face the unenviable challenge of

getting large companies to honor their intellectual property rights. Given the significant imbalance of financial resources between independent inventors and large companies, and given the substantial cost of patent litigation, it is unfair and bad policy to deprive inventors of the right to a permanent injunction. The predictable threat of an injunction against infringement is important to bring companies to the negotiating table and to heed patents generally.

Licensing permits and encourages continued research and development among the thousands of independent inventors across the country. Licensing income comes to this country from all around the world. Courts should not deprive intellectual property owners of their primary leverage in securing license agreements — *i.e.*, the leverage of an injunction against continued infringement.

Nothing in the patent statutes permits consideration of the inventor's use or non-use of the invention. Indeed, use is not a condition for granting a patent. Thus, it seems strange that a district court would consider use to be a factor when that factor runs contrary to U.S. law.

The proposed alternative to an injunction — compulsory licensing — does not fully compensate the patent owner and is not authorized under U.S. law. Indeed, Congress had repeatedly rejected calls to insert a compulsory licensing scheme in the patent laws. The one remedy that fully compensates the patent owner is an injunction.

An injunction is not such a drastic remedy as the petitioners argue. An injunction only requires an adjudged infringer to honor the duly-issued patent and does not stop the introduction of new technology beyond the reach of the infringed patent. Accordingly, this Court should reaffirm its precedents rejecting compulsory licensing and excluding non-use as a factor in granting patent injunctions.

ARGUMENT

I. INDEPENDENT INVENTORS CONTRIBUTE SUBSTANTIALLY TO THE AMERICAN ECONOMY

Circuit Judge Pauline Newman of the Court of Appeals for the Federal Circuit has presided over patent cases since 1984 and had a long history before that as a patent attorney. Judge Newman has seen first-hand the positive impact of patents on the American economy.

> Technologic innovation has driven the American economy, over the past century, to the exclusion of virtually all other growth factors. Many students of technologic change have explained that innovative activity is fundamental to industrial vigor, developing new markets while enhancing productivity and competitiveness, thereby strengthening and enriching the nation. *E.g.*, F.M. Scherer, *Innovation and Growth* (1984); Robert Solow, *Technical Change and the Aggregate Production Function*, 39 Rev. Econ. & Stat. 312 (1957). The role of patents in this activity is of increasing scholarly interest. *E.g.*, David Silverstein, *Patents, Science and Innovation: Historical Linkages and Implications for Global Technological Competitiveness*, 17 Rutgers Computer & Tech. L.J. 261 (1991); Zvi Griliches, *Patents: Recent Trends and Puzzles, in Brookings Papers on Economic Activity: Microeconomics* 291 (Martin N. Baily & Clifford Winston eds., 1989).

Hilton Davis Chem. Co. v. Warner-Jenkinson Co., Inc., 62 F.3d 1512, 1529 (Fed. Cir. 1995) (Newman dissenting), *rev'd*, 520 U.S. 17 (1997).

Independent inventors form a large part of America's technologic growth and account for at least 18% of patent filers in the United States Patent and Trademark Office ("USPTO"). *See* Press Release, USPTO, Commerce Under Secretary James E. Rogan to Address Independent Inventors in Philadelphia (Nov. 14, 2003). "[M]any independent inventors are professional engineers and scientists with working knowledge of invention and the patent system." Kristina Dahlin et al., *Today's Edisons or Weekend Hobbyists: Technical Merit and Success of Inventions by Independent Inventors*, 33 Research Policy 1167, 1179 (2004).

Independent inventors have a greater tendency toward radical innovation and thus have an increased likelihood of creating inventions of greater technical importance than firm-based inventors who may tend towards more incremental innovation.

> This is supported by the rationale that industry outsiders have a greater incentive than corporate inventors to challenge dominant designs in novel ways, since they have no older product generation to protect and are less vested in the assumptions and problem-solving methods of the industry. In addition, the typical work experience of the independent inventor — who often has a background in an industry different than the industry being invented in — also lends weight to the novelty, and hence, technical importance, of his or her inventions.

Id. at 1170 (internal citations omitted).

Although independent inventors disproportionately contribute ground-breaking technologies, they often lack the backing of large companies to help them enforce their patent rights. Certainly, independent inventors merit protection in the courts and should not be discounted simply because they

do not manufacture or provide products and services that compete with the infringers.

II. INDEPENDENT INVENTORS DEPEND ON THE THREAT OF INJUNCTION TO GAIN FAIR LICENSES FOR THEIR INNOVATIVE TECHNOLOGY

"Build a better mouse trap and the world will beat a path to your door." Or so the saying goes. The problem with this saying is that the world of commerce demands more than just a better mousetrap for an invention to come to market. Rather, commerce demands capital, investment, marketing savvy, and business acumen. The world is full of inventors who have, literally, built the bette. mousetrap and have been awarded patents for their inventions. But they have not necessarily been successful in seeing their inventions to market. Accordingly, many inventors find it more prudent to license their inventions to established companies that have the experience to commercialize the patented invention. Often times, however, inventors are forced to litigate against the would-be licensees, who have the economic clout and resources to drain inventors and tie them up in costly litigation. *See* Timothy Aeppel, *Inventors Who Build a Better Mousetrap Get Mostly a Beating*, Wall St. J., Mar. 2, 2006, at A1.

Inventors of valid, commercially important patents who choose to license rather than to make and sell the inventions themselves are sometimes labeled "trolls" and worse. That label unfairly confuses the issue and is based on misperceptions. According to Jon W. Dudas, Director of the United States Patent and Trademark Office, the problem of so-called "patent trolls" is overstated. Rather, as Mr. Dudas reports, "[t]he fact is that [inventors choose to license rather than make the patented products] is not a problem. Licensing is good for our economy." Neil E. Graham,

Perception Gap Hindering Efforts to Improve Patent System, Dudas Says, 71 Pat. Trademark, Copyright J. 374, 375 (2006) (reporting on remarks by Jon W. Dudas at the American Intellectual Property Law Association's 2006 Mid-Winter Institute) (emphasis added). Licensing is often an inventor's best avenue for financially supporting his or her research and development.

Persuading infringers to license a patent is an extremely difficult battle for independent inventors even when fortified with the threat of an injunction. The unwillingness of large corporations to accept licenses from independent inventors is legend. For instance, Philo T. Farnsworth, inventor of electronic television, was forced into years of costly litigation by RCA. David Sarnoff, president of RCA at the time, reportedly said, "RCA doesn't pay patent royalties, we collect them." Gerald Parshall & Richard A. Folkers, *Philo T. Farnsworth: "Dr. X's" Instant Images*, U.S. News & World Report, Aug. 17, 1998. Such behavior persists today. One of UIA's members reports, "When I approached a large company with my invention to offer it for licensing, their exact words were: 'if we decide to manufacture this, just sue us . . . .'" The large company figured that litigation was too expensive for the independent inventor, so it never took his offer to license the technology seriously.[2]

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[2] To the extent technology is being used without paying for it, goods and services are sold cheaply. This occurs in lawless foreign countries where piracy is rampant and products are sold at extreme bargains. Given that the U.S. economy is dependent on intellectual property, it must demand full respect for intellectual property rights. Failure to enjoin infringement will likely hurt U.S. efforts overseas to get other nations to enforce intellectual property rights on behalf of inventors, both independent and company-based.

In this case, eBay seeks to add significantly to the onerous burden already placed upon the individual inventor. Big businesses have long placed enormous hurdles in the independent inventors' way. A large company can afford to risk not paying royalties and to challenge a patent in court. Moreover, today's litigation practice offers the large company a variety of ways of increasing the costs and burdens on patentees that have the potential to dissuade them from continuing the fight. Huge costs are associated with discovery, motion practice, appeal, and reexamination. If numerous factors are to be weighed before granting an injunction, large businesses will have yet another way to add even more costs. eBay's request to deny an injunction further seeks to impose on patentees the need to bring a second infringement suit to pursue a mere colorable change to an established infringing product or system.

Independent inventors add to scientific knowledge and the useful arts. Having earned a patent, the inventor has, by definition, supplied the public with an enabling disclosure of a new and non-obvious invention. 35 U.S.C. §§ 112, 102, 103. If big business can trample on the inventor's rights with no more penalty than the royalty it refused to pay in the first place, inventors will see enforcement of their patents as a futile effort, and their innovation and contributions to society will be discouraged. Given the enormous imbalance of resources between big business and individuals, the predictable right to an injunction is essential to make licensing a possibility. The outgunned inventor has little or no leverage other than the threat of an injunction to bring a large infringing company to the table to negotiate a fair license.

III. EXCLUSIVE RIGHTS ARE NOT CONTINGENT ON ABILITY TO PRACTICE ONE'S OWN INVENTION

Perhaps in recognition of the increasing importance of independent inventors and patent licensing to the U.S. economy, and perhaps to diffuse the rancor in some circles over so-called patent trolls, this Court has agreed to hear the *MercExchange* case and has particularly asked whether it should reconsider its long-established precedent in *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908). That precedent holds that the patent owner's non-use is irrelevant to whether he or she deserves an injunction. This rule flows from "the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." *Id.* at 429. This precedent should be maintained, as further argued below.

Upon applying for a patent, an inventor does not sign an affidavit promising to use, make, or sell the invention should a patent issue. Indeed, the law does not require use or commercialization of the invention as a condition for granting a patent. The requirement is that the invention be new and useful:

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvements thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.

35 U.S.C. § 101 (1952).

The conditions for patentability are set forth primarily in 35 U.S.C. §§ 102 and 103. These conditions mostly concern whether the invention is novel and non-obvious. Nothing in these provisions, or anywhere else in the United States patent

laws, requires that the inventor himself make, use, or sell the patented invention.

By statute, the patent grants to the inventor and his or her heirs and assigns "the right to exclude others from making, using, offering for sale, or selling the inventions throughout the United States . . ." 35 U.S.C. § 154(a) (emphasis added). Again, nothing in this statutory patent grant is conditioned on the patent owner making and selling commercial embodiments of the invention or competing with the infringer. Indeed, as this Court has noted, Congress has repeatedly considered and rejected requests to amend the patent laws to require forfeiture of the right to exclude upon nonuse of the invention. *Special Equip. Co. v. Coe*, 324 U.S. 370, 379 (1945) ("Congress has frequently been asked to change the policy of the statute as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if the patent is not used with a specified time, but had not done so."); *accord*, *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432–33 (1945).

Thus, it is strange that the district court in the underlying case took into consideration that MercExchange did not itself make or sell the patented invention in competition with eBay. Such consideration has no basis in the patent laws. To be sure, 35 U.S.C. § 283 allows courts to "grant injunctions in accordance with the principles of equity . . . ," but § 283 must be read in conjunction with the rest of the patent laws. And, as seen above, nothing in the patent law hinges the right to exclude on the patentee's own use or sale of the invention.

Indeed, because patent rights are founded on invention, not on a promise of commercialization, consideration of the patentee's use has no place in the decision to grant an injunction. As one commentator put it, "[t]o impose the burden of exploitation on the inventor seems to make the

patent dependent upon its exploitation, rather than upon the making of the invention. What then, one may ask, is the patent rewarding: the invention or its exploitation?" Nuno Pires de Carvalho, *The Primary Function of Patents*, 2001 U. Ill. J.L. Tech. & Pol'y 25, 34 (2001).

This Court and others have consistently answered the above question by holding that patents reward invention, not use. Thus, patent law does not require patent owners to commercialize the invention. The patentee owes no particular duty to the public to make, use, or sell the invention himself. *See Hartford-Empire*, 323 U.S. at 432 ("A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others."); *see, e.g., American Brake Shoe & Foundry Co. v. Hoadley Brake Shoe Co.*, 222 F. 327, 330 (D. Mass. 1915) ("[A] patentee, or his successor, does not lose his right to protection under a patent, even if he does not continue manufacturing under the patent, unless an intention is shown to abandon his invention."), *aff'd*, 227 F. 90 (1st Cir. 1915).

Put another way, patent law does not distinguish among or discriminate against classes of patent owners. A patent owner is thus free to make and sell the patented invention, to license the patented invention to others to commercialize, or to refuse to do so altogether. The patent owner may license some companies and refuse to license others. The refusal or inability of a patent owner to use or commercialize the patented invention does not give the public free reign to infringe the patent. *See, e.g., Dawson Chem. Co. v. Rohm and Haas Co.*, 448 U.S. 176, 215 (1980) (holding that the right to exclude is "the essence of a patent grant" and a patentee is thus not required to license the patent to others); *see also SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204 (2d Cir. 1981) (holding that patentee's unilateral refusal to

license its patents to competitors was within its statutory right to exclude and was otherwise lawful), *cert. denied*, 455 U.S. 1016 (1982); *Extratol Process, Ltd. v. Hiram Walker & Sons, Inc.*, 153 F.2d 264, 268 (7th Cir. 1946) ("The patentee is the sole judge of the licensee he shall select, to make, to sell, or to use his patented article. Patentee's reasons for selection of its licensee are of no concern to others.").

IV. COMPULSORY LICENSING SHOULD PLAY NO ROLE IN THIS CASE

Courts routinely assess damages for patent infringement. But the remedy of damages does not address continuing infringement after the judgment. An injunction does. The alternative to an injunction for enforcing patent rights against continuing infringement is compulsory licensing. But that alternative is not satisfactory. Indeed, compulsory licensing has been repeatedly rejected by Congress.[3]

Several decades ago, before establishment of the Federal Circuit, the Second Circuit denied inventor Julius E. Foster an injunction against continuing infringement simply because he did not use or sell the invention in competition with the infringer. Foster had conceived a "radically new idea in alternating current welding," which was "a revolutionary concept" that "solved" a "longstanding welding problem." *Foster v. Magnetic Heating Corp.*, 297 F. Supp. 512, 514 (S.D.N.Y. 1968). Nevertheless, the court allowed infringement to continue under compulsory licensing at a royalty fixed by the court. The Second Circuit approved the compulsory license, acknowledging that, "[t]o grant [Foster] a compulsory royalty is to give him half a

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[3] A compulsory license forever denies an inventor the opportunity to negotiate an exclusive license with the inventor's preferred licensee. The compulsory license destroys the exclusive right.

loaf." *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

The adjudged infringers in this case have relied on the Second Circuit's opinion in *Foster* for the proposition that an injunction should be denied to non-using patent owners. But this Court and Congress have flatly rejected the Second Circuit's inadequate remedy. In keeping with the Congressional rejection of compulsory licensing, this Court has refused to insert compulsory licensing into United States patent law jurisprudence. "Compulsory licensing is a rarity in our patent system, and we decline to manufacture such a requirement." *Dawson Chem. Co. v. Rohm and Haas Co.*, 448 U.S. 176, 215 (1980).

Congress has been consistent in its rejection of compulsory licensing. "Compulsory licensing of patents often has been proposed, but it has never been enacted on a broad scale. Although compulsory licensing provisions were considered for possible incorporation into the 1952 revision of the patent laws, they were dropped before the final bill was circulated." *Dawson Chem.*, 448 U.S. at n. 21 (internal citations omitted). The refusal to adopt a system of compulsory licensing dates far back in history. "Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. It has failed to enact these proposals into law." *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 (1945).

Moreover, the court Congressionally charged with the mandate of shaping American patent law, the Court of Appeals for the Federal Circuit, has rejected the *Foster* court's reasoning. Specifically, the Federal Circuit explained that limiting the right to an injunction contravenes the Constitutional purpose behind patents and destroys the patent's value:

> Without the injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the useful arts, would be seriously undermined. The patent owner would lack much of the "leverage," afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1577–78 (Fed. Cir.), *cert. denied*, 464 U.S. 996 (1983).

The Second Circuit's unauthorized experiment with compulsory licensing should be firmly repudiated. Independent inventors who have given of their time, talent, ingenuity, education, and experience to conceive and describe a new and non-obvious invention in a patent should not be discriminated against. Their collective contributions to American innovation are huge. This fertile source of innovation should not be reduced to receiving "half a loaf."

Without an injunction, MercExchange, Julius Foster, and other like patent owners could never be made whole. "It hardly needs to be pointed out that the right [of the patentee] can only retain its attribute of exclusiveness by a prevention of its violation." *Cont'l Paper Bag Co.*, 210 U.S. at 430. Money damages partly compensate patent owners, of course, but only injunctions against continuing infringement can fully remedy the violation. *See, e.g., Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 976 (Fed. Cir. 1996) ("[B]ecause the principal value of a patent is its statutory right to exclude, the nature of the patent grant weighs against holding that

monetary damages will always suffice to make the patentee whole.").

V. THE LEVERAGE OF A PATENT INJUNCTION IS STRICTLY TEMPERED SO AS TO ONLY EXPOSE BAD ACTORS TO CONTEMPT

Independent inventors can not be so severely ill-served by the courts that infringing activity is permitted to continue in the guise of mere colorable changes to adjudged infringements. Mr. Justice Cardozo once observed that litigation is a rare and catastrophic experience for the vast majority of men. *Int'l Union of Operating Eng'rs, Local 150, AFL-CIO v. Flair Builders, Inc.*, 406 U.S. 487, 497 (1972) (Powell dissenting) *citing* Benjamin Cardozo, *The Nature of the Judicial Process* 128 (1921). The import of eBay's request for denial of an injunction is to force MercExchange to start all over again after having endured over $9 million in litigation costs to successfully prove eBay was willfully infringing its patent. JA 970–81.

Our judicial system demands finality. Litigants should not be forced into perpetually litigating matters that have been decided. Patent injunctions — no matter how worded — only impose contempt on the adjudicated infringement and colorable changes therefrom. After having had the court construe the claims of the patent, the infringer is well positioned to make a meaningful design around that avoids the claims as construed. The inventor, who has fulfilled the bargain with the government of disclosing a novel and non-obvious invention, is entitled to exclude practice of the infringement, especially after fully litigating the matter. The innovative activities of independent inventors would be threatened if it were perceived that even such a narrow remedy is denied to them.

Contrary to eBay's arguments, an injunction or threat of contempt does not provide undue leverage over an adjudged

infringer who, after judgment, acts in good faith. The law of injunctions and contempt properly limit the leverage of contempt to the adjudged infringement and mere colorable changes. See *KSM Fastening Sys., Inc. v. H.A. Jones Co., Inc.*, 776 F.2d 1522, 1530 (Fed. Cir. 1985) ("[P]roceedings by way of contempt should not go forward if there is more than a 'colorable difference' in the accused and adjudged devices."). Only if eBay makes no more than a mere colorable change to its system would it face contempt. To the extent eBay makes a good faith effort to design around the patent, contempt will not be available to MercExchange. Thus, even when enjoined, eBay avoids contempt merely by showing that the new system includes more than a mere colorable change to the infringing system, that is, it raises substantial open issues with respect to infringement. *KSM Fastening Sys. Inc.*, 776 F.2d at 1532.

Courts uniformly exercise restraint in affording a patent owner the benefit of contempt proceedings. *KSM Fastening Sys., Inc.*, 776 F.2d at 1525. Federal Rule of Civil Procedure 65(d) protects the infringer from an overreaching injunction. "The rule requires an injunction to prohibit only those acts sought to be restrained, which in this case are infringement of the patent by the devices adjudged to infringe and infringement by devices no more than colorably different therefrom." *Int'l Rectifier Corp. v. IXYS Corp.*, 383 F.3d 1312 (Fed. Cir. 2004).

Even if a patent injunction were overbroad, infringers who design around a patent are protected from the severity of contempt hearings. "The unreasonableness of a decree incorporating a vague or broad prohibition against 'infringement' of a 'patent' is alleviated because of the universal rule . . . that contempt proceedings, civil or criminal, are available only with respect to devices previously admitted or adjudged to infringe, and to other devices which are no more than colorably different

therefrom and which clearly are infringements of the patent." *KSM Fastening Sys., Inc.*, 776 F. 2d at 1526. For a legitimate design around system that has more than a colorable variation from the adjudicated infringing system, infringement will always need to be resolved through a separate infringement action. *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 154 F. 3d 1345, 1350 (Fed. Cir. 1998).

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be affirmed and this Court should reaffirm that non-practice of an invention is irrelevant to patent owner's right to an injunction.

Respectfully submitted,

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eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

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INTEREST OF AMICI CURIAE

Amici are scholars at American law and business schools interested in patents, property, and the theory of the firm. Amici have no other stake in the outcome of this case,[1] but are interested in ensuring that patent law develops in a way that best promotes innovation. A full list of amici is appended to the signature page. Both petitioner and respondent have consented to the filing of this brief.

SUMMARY OF ARGUMENT

Under well-established patent law, the usual rule is that whenever a plaintiff shows that a defendant has infringed a valid patent, an injunction should issue in the absence of special circumstances. This rule is in fact consistent with the statutory requirement under Section 283 of the Patent Act that requires Courts to apply principles of equity to these cases. Those principles of equity always include some measure of judicial discretion, so that the key question is always how it should be implemented. The preferred approach is to require a defendant to articulate some discrete *category* of cases into which the infringer's case falls and within which a grant of injunctive relief would be inappropriate, rather than undertaking a costly and uncertain fact-specific inquiry that simply asks in general terms whether the issuance of an injunction is appropriate on a balancing of the equities or in the overall public interest.

This categorical approach is well reflected in the decided cases. Courts should stand ready to use their discretion to admit further (categorical) exceptions to the general rule. Yet it would be most unwise to deny an injunction because the court does not think that a patentee has practiced the invention with sufficient vigor, because of some alleged holdup, or holdout, problem, or because a judge thinks that the patent is of the wrong type. Introducing discretion into these areas makes the

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[1] Pursuant to Sup. Ct. R. 37.6, the amici represent that no person or entity other than the signatories has authored or paid for any part of this brief or its submission.

courts arbiters not of the patents but of industrial policy, on which they have little competence. The rule in *Continental Bag Co. v. Eastern Bag Co.*, 210 U.S. 405 (1908) has stood the test of time and should be reaffirmed.

ARGUMENT

The firmly-settled jurisprudence of the United States Court of Appeals for the Federal Circuit – that a permanent injunction should presumptively issue to enforce a patent adjudged to be valid and infringed – comports well with both statutory command and sound public policy. This Court should reject calls for a radical reconsideration of the Federal Circuit's case law in this area on two grounds. First, they misconstrue the relevant precedents of the Federal Circuit. Second they offer prescriptions for reform would be unwise as a matter of sound patent policy. We hope to illustrate the soundness of these propositions with reference to the decided cases, as well as to the Amici Curiae brief submitted by 52 Professors of Intellectual Property [hereinafter 52 IP Professors]. Their brief confuses the issues and muddies the waters in ways that weaken the structure of exclusive patent rights on which today's elaborate system of licenses and other voluntary agreements rest.

I. The Federal Circuit's Case Law Rightly Establishes a Rule that Injunctions Should Generally Issue Except in those Unusual Cases in which Good Cause is Shown for Denying that Form of Relief

The position of the Federal Circuit under review in this case reads as follows:

> Because the "right to exclude recognized in a patent is but the essence of the concept of property," the general rule is that a permanent injunction will issue once infringement and validity have been adjudged. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). To be sure, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995);

> . . . Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. *Rite-Hite Corp.*, 56 F.3d at 1547.

MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1338 (Fed. Cir. 2005).

In order to frame this dispute, it is necessary to set this principle in its proper context.

First, the question of permanent injunctive relief only comes up after the twin questions of validity and infringement have been resolved in the patentee's favor. On this appeal, we take no view on any of the underlying factual disputes between the parties on any other aspects of this case. Instead, we approach this dispute over injunctive relief on the premise that the parties have received a full and fair litigation on those underlying issues. Relitigation of those basic issues is accordingly precluded by well rehearsed concerns for finality of judgment that are in no way unique to patent law. In contexts in which validity and infringement have not been adequately demonstrated, as in the preliminary injunction setting for an untested patent, the Federal Circuit readily sets aside the preliminary injunction if entered by a district court. *See, e.g.*, *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1342, 1366 (Fed. Cir. 2001) (vacating and remanding because of "substantial questions as to the validity of the [one-click shopping] patent").

Second, the Federal Circuit rule quoted above is correct insofar as both willful and innocent infringements should be routinely enjoined. If the opposite result were true, then any party that did not use due diligence to find out whether its conduct constituted infringement would be in the advantageous position of using its own neglect to undermine the legal protection otherwise available to a patentee. Potential infringers would have a palpable incentive to decrease inquiry into existing patent rights, which in turn would increase the number of infringement disputes. In all cases an infringer necessarily receives actual notice that his conduct has infringed from a cease

and desist letter from the patentee, or from a lawsuit. In those circumstances, the defendant's actual notice of the existence of the patents imposes on the defendant an obligation of due diligence. *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1379 (Fed. Cir. 2005). The ongoing dispute itself makes all infringements willful at the conclusion of litigation, even if they were not when the defendant first engaged in its infringing conduct. Of course, the distinction between innocent and willful infringes still remains relevant to the issue of enhanced damages and any overall assessment of the balance of hardships In these contexts willfulness bears the same meaning it has in other tort contexts, by covering cases where a defendant knowingly and deliberately decides to infringe another's patent.

Third, the basic rule awarding permanent injunctive relief should not be displaced solely because the U.S. Patent and Trademark Office (PTO) has ordered, or might order, a reexamination of the same patent. An order of a reexamination in no way guarantees that a claim of invalidity will be upheld by the PTO or confirmed by subsequent judicial review; denying an injunction solely on that basis will create a moral hazard prompting infringers to routinely seek reexamination in order to remain in business notwithstanding their infringement. The precise treatment of this question involves fact-driven, complex trade-offs. But there is no reason to explore those troubled waters here in advance of an actual controversy.

Fourth, the use of injunctive relief always raises ticklish questions whenever two courts have reached inconsistent judgments about the validity or infringement of particular patents. In such circumstances, the problem of fashioning proper relief is not restricted to the injunctive portion of the case. It is equally odd for damages to be awarded in one lawsuit when they are denied in another. We offer no general solution as to how inconsistent judgments should be treated, but we note that such considerations are not present in the current lawsuit, and we suggest that if this problem arises with any frequency, Congress should create some forum for the reconciliation of inconsistent judgments.

II. The Federal Circuit's Good Cause Requirement Does Not Require An Injunction to Issue in All Cases But Avoids The Dangerous Risk of Ad Hoc Determinations that Invite Unnecessary Legal Uncertainty

A. The Current Decisions of the Federal Circuit Strike the Right Balance between Excessive Rigidity on the One Hand and Unnecessary Confusion on the Other

All parties to this case agree, by the merits stage, that the basic rule on injunctions in the Federal Circuit is a "general" rule, and not a universal, mandatory one. The key point that separates the two sides in this case is a dispute over the scope of the possible exceptions and the legal standards that should determine them.

In contrast to the tight rule with narrow exceptions established by the Federal Circuit, the 52 IP Professors urge that the traditional principles of equity should be used on a case-by-case basis to determine when an injunction should be withheld. In addition, they insist that the recent decisions of that court have strayed from the appropriate statutory mandate, which provides, as they note, "that courts 'may' grant injunctions once infringement is found, but only 'in accordance with the principles of equity' and 'on such terms as they deem reasonable.' 35 U.S.C. § 283." 52 IP Professors, at 1. In their view, the basic standards that carry out this statutory mandate follow the equitable standard of relief announced in this Court's decision in *Weinberger v. Romero-Varcelo*, 456 U.S. 305 (1982), a suit brought under the Federal Water Pollution Control Act, 33 U.S.C. § 1351 *et seq.*, to prevent the United States Navy from discharging its ordnance into the navigable waters of the United States.

Their position misunderstands how the traditional rules of equity operate, by failing to acknowledge the rule-based nature of equitable principles. In addition, nothing in *Weinberger* undermines the rule announced by the Federal Circuit in the case below; nor does it show that they have disregarded the statutory mandate, on which the Federal Circuit has properly relied in numerous cases.

See, e.g., Odetics, Inc. v. Storage Tech Corp., 185 F.3d 1259, 1272 (Fed. Cir. 1999) (citing and applying § 283).

In approaching the case, the 52 IP Professors distill *Weinberger* to say that the four equitable factors that should be taken into account in determining equitable relief are "(i) whether the plaintiff would face irreparable injury if the injunction did not issue; (ii) whether the plaintiff has an adequate remedy at law; (iii) whether granting the injunction is in the public interest; and (iv) whether the balance of hardship tips in the plaintiff's favor." 52 IP Professors, at 1-2.

It is critical to understand, however, that the particular reasons offered in *Weinberger* for denying the injunction shed light on how these general principles should be construed. Most conspicuously, on the facts of that case, the plaintiffs had not shown that the defendant's discharges of naval ordnance had polluted the navigable waters of the United States. Given that key circumstance, therefore, the Supreme Court held that it was appropriate to order the Navy to apply for a permit under the Act, and to temporarily decline to issue the injunction until that process had run its course. *Id.* at 314-315.

The particular use of equitable principles in this case must be understood against the backdrop of *Weinberger's* internal reasoning, which looks very similar to the general patent rule that is chary of awarding preliminary injunctions before a clear invasion of right is proved. In addition, any differences between the two cases are explained in large measure by the fact that the Water Pollution Act is an elaborate administrative statute that contains a permitting process that is not present in the patent context. The closest analogy to this situation is one that would deny a patentee an injunction against acts that had not been shown to infringe, in order to allow the parties to negotiate any voluntary license if necessary. As such the reasoning in *Weinberger* does not show any tendency whatsoever to deny what the Federal Circuit has affirmed – namely, that injunctions generally issue as of course when both validity and infringement have been shown.

The recent decision of the Federal Circuit in *Fuji Photo Film Co.*, referred to above, is also consistent with

the general approach in *Weinberger*. In addition, it shows the careful way in which the Federal Circuit cabins discretion in injunctive relief cases. *Fuji* involved a complex overlap between an international trade dispute and a patent dispute. Fuji's patent claim was that Jazz had engaged in direct infringement of its patent when it imported from China into the United States certain types of disposable cameras, known in the trade as "lens fitted film packages (LFFPs)." One key issue was whether Jazz had taken certain discarded Fuji LFFPs and had repaired or refurbished them (which is permissible under the patent law), or whether it had reconstructed them (which is not permissible under the patent law). The trial judge, while "walking an evidentiary tight rope," *Fuji*, 394 F.3d, at 1375, found that 90 percent of Jazz's LFFPs were in fact illegally reconstructed and ordered damages in the form of a reasonable royalty on them. But the district court, in a move approved by the Federal Circuit, denied the injunction, for a number of reasons that do nothing to undermine the general rule. Its reasons give a good sense of the general approach in the Federal Circuit:

> The district court determined that Fuji's proposed injunction lacked specificity and reasonable detail as required by Fed. R. Civ. P. 65(d). Moreover, the district court held that even if Fuji's proposed injunctive language were more narrowly tailored it would still deny relief on three grounds: 1) the parties' discovery stipulation precluded injunctive relief for infringing activity after August 21, 2001; 2) the issues of proof would not necessarily adhere in a damages analysis for infringement after August 21, 2001; and 3) the ITC's [International Trade Court] injunctive relief, although not co-extensive with that of the district court, subsumed the relief that Fuji sought from the district court.

Id.

The decision in *Fuji* thus falsifies the blanket factual assertion of the 52 IP Professors that "[I]n no case in the last twenty years has the Federal Circuit permitted a district court to apply its equitable powers to refuse a

permanent injunction after a finding of infringement." 52 IP Professors at 2. (Their note 2, at 2 duly notes the differential treatment of preliminary injunctions.) More importantly, the approach followed in *Fuji* shows that a narrowly cabined form of discretion does nothing to undermine the security of exchange that depends on the strong protection of intellectual property. *See supra* at 7. No court should issue an injunction unless it is possible for the enjoined party to know what conduct is prohibited and what is not. Overbroad injunctions improperly curtail the defendant's right to conduct its own business as it sees fit, so any system of discretion must necessarily see that the remedy in question is tailored to the underlying wrong. In addition, parties seeking injunctive relief always have it within their power to avoid stipulations in discovery that preclude injunctive relief. Likewise, case-specific time limitations agreed to in one case have no precedential value in dealing with the next. And finally, the overlap between two distinct systems of relief (damages and injunctions) requires as much caution here, as the overlap between the general statute and the permitting process did in the clean water context in *Weinberger*. In short, the current practice of the Federal Circuit suffers neither from excessive rigidity on the one hand nor from incurable vagueness on the other.

Nor is there any reason to exclude from consideration alternative grounds for denying an injunction, none of which work to create further instability in property rights. The traditional equitable doctrines of laches and estoppel provide examples of how this can be done on a categorical basis. For example, in *Odetics, Inc.*, *supra*, the defendants were found to infringe plaintiff's patents for robotic tape storage systems, whose primary function is to store, organize, and retrieve videotapes or computer data tapes. The District Court judge first held that the plaintiff's tardy action in bringing suit constituted laches.

On appeal, one question before the Federal Circuit in *Odetics* was whether a permanent injunction should prohibit the further use of the covered equipment that was made and distributed during the pre-complaint laches period. The Federal Circuit denied the injunction. In so doing, it showed a sophisticated awareness of the interaction between

injunctive relief and damages. The patentee's laches barred its action for damages. Yet an award of an injunction would require users who were protected against damage suits to buy back the use of their own products. The only way to make good on the laches defense was to ban both remedies for that period, which the Federal Circuit did. *Odetics, Inc.*, 185 F.3d at 1273-74. The key point to note is that this exercise of discretion in no way threatens the stability of the underlying property rights in question. All that a patentee need do to obtain an injunction under the reasoning in *Odetics* is to bring a timely action, so that the power to receive the full protection of its property rights always lies in its own hands.

A similar analysis applies to the issue of estoppel, where the equitable principles are strong enough to deny the holder of a valid patent both damages and injunctions if the patent holder has engaged in improper conduct. The principle of estoppel operates in those cases in which the active conduct of a patentee leads some other party to believe that it has a right to practice the patented invention. These situations go beyond the narrower principles of legal estoppel in which a defendant seeks to derogate from its own valid license or assignment.

For example, the Federal Circuit held in *Wang Labs. v. Mitsubishi Elecs.*, 103 F.3d 1571 (Fed. Cir. 1997) that the infringer had properly inferred consent based on substantial affirmative acts by the patentee. The court further noted that although such estoppel is rare, it may be shown by sufficient proof based on the "entire course of conduct." *Id.*, at 1580-82 (relying on *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927)).

That these situations are rare is not a reason to doubt the sense of the legal rule from *Wang Labs*. It is a reflection of the sensible fact that in most high value deals the parties will negotiate adequate legal agreements, for the benefit of all. Yet *Wang Labs* shows that the principles of equity will work as an important barrier against sharp conduct.

As with cases of laches, the particular applications of the principle of equitable estoppel are likely to be fact-intensive, and their proper resolution necessarily requires

the use of judicial discretion of the sort that the Federal Circuit applied in *Wang Labs*. But three points are worthy of notice. First, the use of the principles of discretion did not necessarily require a jury trial. Some cases within the category are clear enough for judgments as a matter of law. Second, the application of estoppel principles in no way upsets the balance of strong property rights needed for commercialization, as the patentee has it always within its power to avoid the conduct that, depending on the scope of the estoppel, leads to the loss of past damages, injunctive relief, or both. Third, in some cases the extent of the reliance and the nature of the course of dealing could justify protection against injunctive relief – an issue not explicitly addressed in *Wang Labs*. For prospective relief by estoppel with real estate, *see Holbrook v. Taylor*, 532 S.2d 763 (Ky. 1976). In sum, it is possible to identify sensible categories of cases to which the principles of equity apply without resorting to case-by-case judgments of the social desirability of patents where none of the traditional grounds for equitable intervention is present.

B. Precedents on Injunctive Relief Drawn from the Law of Real and Personal Property Do Not Support Loose Standards of Discretion on the Question of Equitable Relief

The 52 IP Professors not only misunderstand the role of injunctive relief in intellectual property cases, they also overread the case law that governs the use of injunctions for trespass to chattels and to real property. In dealing with these materials, they claim that the "traditional principles of equity" invite the court to "consider such factors as adequate remedy at law, the balance of hardships to the parties, and the public interest in deciding whether to grant the injunction." 52 IP Professors at 4. The clear import of this statement is that "Courts regularly award damages rather than injunctive relief against invasion of real property when circumstances warrant." *Id.*

Yet the authority on which the 52 IP Professors rely is in fact consistent with the Federal Circuit's categorical approach, and not with their *ad hoc* one. In particular, they cite Michael A. Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 Duke L.J. 1, 66-68

(2004), which offers these examples to explain why an automatic injunction rule is inappropriate – "averting a disaster, fleeing from an animal, reclaiming or removing a chattel, executing a court order, putting out a fire, making an arrest, and exercising free speech rights." All these, with the possible exception of the last, do not rely on any individual judgment that seeks to decide on a case-by-case basis when the injunction should issue and when not. Quite the contrary, they identify narrow *categories* of well-defined cases, far removed from the usual commercial dispute, in which it is appropriate to deny the injunction.

The common thread throughout these cases is that they all require the suspension of exclusive rights in land in order to deal with some disaster or calamity, or with the exercise of sovereign power. As such, these examples are simply application of the time-honored principle that the exclusive rights of private ownership must give way in narrow circumstances of necessity. Thus *Ploof v. Putnam*, 71 A. 188 (Vt. 1908) held there was a privilege to enter someone else's property in order to remove a private necessity but there is generally a duty to provide compensation. And *Vincent v. Lake Erie Transp. Co.*, 124 N.W. 221 (Minn. 1910) held that the rules on public necessity also allow the infringement of property rights, but normally dispense with any requirement of compensation.

Again, the categorical rule is very old. For example, *Mouse's Case*, 66 Eng. Rep. 1341 (K.B. 1609), held "that in a case of necessity, for the saving of the lives of the passengers, it was lawful for the defendant, being a passenger, to cast the casket of the plaintiff out of the barge, with other things in it." Likewise, *Mayor of New York v. Lord*, 18 Wend. 126, 129 (N.Y. 1837), held that it was "well settled" that the privilege was absolute "in cases of actual necessity, to prevent the spreading of a fire, the ravages of a pestilence, the advance of a hostile army, or any other great public calamity."

As these precedents indicate, the 52 IP Professors rely on cases that illustrate the ancient and general principle that ordinary property rights are suspended under conditions of necessity. To be sure, the likelihood that these necessities will arise in the context of intellectual property

is lower than it is with respect to tangible property, for it is highly unlikely that persons will need to infringe patents in order to escape with their lives. But the class of cases in which this issue is raised is not empty. Indeed, it is just those cases that are tracked by the Federal Circuit below when it references "public health" dangers as a category of reasons that could lead to a suspension of patent property rights. *See MercExchange,* 401 F.3d at 1338; *see also, Schneider (Europe) AG v. SciMed Life Systems, Inc.*, 852 F.Supp. 813, 861-62 (D.Minn. 1994) (acting in response to public health concerns to delay entry of injunction by a year to allow a transition period for doctors to changeover to non-infringing products).

C. The Proper Principles of Injunctive Relief Preclude an Unstructured Case-by-Case Review

With these principles firmly in mind, it is now possible to state with some clarity the differences that separate the methodology of the 52 IP Professors from our own (and that of the Federal Circuit). They are content, at least as a first approximation, with using the loose standard of discretion that allows a court to do some kind of a case-by-case analysis on whether injunctions will issue. In contrast, the Federal Circuit rightly refuses to analyze the problem one case at a time, and instead seeks to examine cases *by category* in order to develop a consistent but dynamic body of law to see when injunctions are allowed. We recognize that all cases cannot be put into a single category. The necessity cases necessarily involve different principles from cases where plaintiff loses the right to any injunction by waiver or laches. And these in turn differ from cases that reveal some uncertainty in the factual record, the interplay of multiple statutory regimes that could caution against injunctive relief, or a possible reexamination of patent validity in the PTO.

That said, it should be clear that the broad celebration of trial court discretion, on which the 52 IP Professors rely, should be understood not as the definitive analysis, but only as a preliminary exercise that precedes the more systematic effort to flesh out the loose standard of "when circumstances warrant." That shift to narrow and precise categories makes all the difference in judicial administration. If

the discretion afforded to a district court is as open-ended as the phrase "as circumstances warrant," then, regrettably every case becomes a crapshoot, so much so that there is no longer any general rule, let alone a universal one. Put differently, the standard for granting injunctions should never allow one court, but not a second, to say that it chooses to deny the injunction because on a balance of convenience the social welfare is better served by allowing the invention to be practiced upon the payment of a judicially determined royalty.

In this context, the 52 IP Professors are not faithful to their major premise, for they rightly backtrack from the social chaos that would ensue by rejecting any firm protection of property rights. *See* 52 IP Professors at 7. And they are rightly motivated to take the further step of insisting that their proposal to vest discretion in District Courts "does not amount to a Compulsory License." *Id.* at 9.

Unfortunately, at the same time they adopt these sensible categorical propositions, they cloud the remedial question in unnecessary obscurity. Their broad discretionary approach invites "fact-specific, case-specific applications of the principles of equity" to solve the problem on a retail level. *Id.* at 9. No dice. This fuzzy paean to individualized justice shows scant appreciation of the huge administrative cost and unpredictability that this open-ended inquiry would create, and offers no assurance whatsoever that dozens of District Court judges will exercise their supposed discretion in anything approaching a coherent and consistent fashion.

Recognizing, perhaps, how their muddy articulation opens up the dangerous possibility of routine compulsory licenses, the 52 IP Professors switch grounds by announcing that they would routinely grant injunctive relief "to patent owners who participate in the market, whether by selling the patented invention, exclusively licensing it to someone else who sells it, or selling a product not covered by the patent but which competes with the infringing product." *Id.* at 9. They also take a similar view that injunctive relief should routinely be given "against those who copy the invention from the patentee." *Id.*

There is evident tension between these categorical statements and their earlier insistence that sound judicial discretion requires that four general factors be at play in every case. *Id.* at 1-2, noted *supra* at 6. Yet the 52 IP Professors do not explain how the two portions of their program mesh with each other; nor do they supply *any* example that allows anyone else to discern when the per se rule is available and when the facts and circumstances inquiry is appropriate.

D. The Possibility of Patent Holdups is Generally Not a Justification for Denying Injunctive Relief

Fortunately, however, their brief goes out of its way to reaffirm in unqualified terms the soundness of the holding in *Continental Bag*. 52 IP Professors, at 5, note 4. That case stands for the proposition that the right to exclude inherent in a patent does not create a duty to use, any more than the ownership of land requires an owner to farm or build it. The 52 IP Professors argue, however, that the principle of *Continental Bag* is not applicable in those cases that pose special risk of holdups. *See* 52 IP Professors at 6. More precisely, they worry about the possibility of patentees who "can obtain revenue in excess of the value of the technology by threatening to enjoin products that are predominantly no infringing and in which the defendant has already made significant irreversible investments."

As a general matter, this proposition is surely overbroad, and threatens to undo the stability that the *Continental Bag* decision has long brought to this area. There is nothing more common than the designer of a technology incorporating other technologies acquired by license or other arrangement from an array of sources. If injunctive relief may well be refused whenever a defendant incorporates the plaintiff's patent into his own larger assembly, then we have an exception that is large enough to eviscerate the basic rule.

Second, the argument of the 52 IP Professors rests on an overconfident judgment that it is possible to determine the value of each component to a process that requires many separate components to succeed. In fact, standard

economic theory yields no unique estimate of the value of the different components that go into a common project, and thus does not afford any ready base on which to calculate the relative values of the various inputs. The entry of injunctive relief avoids that valuation nightmare.

In addition, there are affirmative reasons why injunctive relief is generally appropriate in this area. The first point is that the problem is in a real sense self-limiting. If the "predominant" value in any assembly lies in the noninfringing portions, then it should be relatively easy to work around the one or two elements that lies within the exclusive control of the patentee. And if there is no close substitute, then there is little or no reason to think that this key component does not deserve a large valuation in any proceeding, which in turn bolsters the case for injunctive relief. Nor is there any reason to worry about the occasional case in which successful work-arounds are not immediately available. In most cases, the potential infringer has notice of its exposure to liability when the suit is filed, so can seek to develop, license, or buy substitute technologies before final verdict. And in those cases where the time it takes for the lawsuit itself is not sufficient delay, the traditional understanding of equitable jurisdiction has always allowed courts to further delay the onset of an injunction in appropriate cases to ease the pain of a sudden or major transition. *See, e.g., Schneider*. It would be most unwise and unfair to penalize the patentee because the infringer has not taken full advantage of the grace period that effectively is created by these two delays.

This problem has often been advertised in more general form on the guise that the need to assemble multiple patents creates an unfortunate "anticommons," which makes it impossible for an entrepreneur to assemble all the pieces needed to complete some complex project. Yet the empirical evidence suggests a different conclusion. Far from being subject to endless holdups and blockades, in both industry and universities, researchers have beaten the supposed problem by adopting strategies of "licensing, inventing around patents, going offshore, the development and use of public databases and research tools, court challenges and simply using the technology without a

license (i.e., infringement)" to achieve their particular goals. J.P. Walsh *et al.*, *Working Through the Patent Problem*, 299 Science 1021 (2003). Put simply, there is no empirical evidence at present that supports creating a giant exception to the standard rule of injunctive relief to deal with the product assembly problem. *See* J.P. Walsh *et al.*, *View from the Bench: Patents and Material Transfers*, 309 Science 2002 (2005) (reporting empirical results demonstrating that "access to patents on knowledge inputs rarely imposes a significant burden on academic biomedical research.").

In addition, injunctive relief in these settings has real benefits that the 52 IP Professors ignore in their brief. One key advantage of injunctive relief is that it reduces the likelihood of infringing conduct in the first place. If the developer of an assembled product knows that it may be shut down or held up, it should take additional precautions – greater patent searches, more inclusive licensing, new inventions of its own – to obviate. In addition, in cases in which the patent infringement comes as a genuine surprise, a court could use its discretion to delay the enforcement of the injunction in order to facilitate the transition.

The conclusion on this point is not unique to the patent law but applies to areas of land law including nuisance and encroachment. In these cases, the use of injunctions is in general more common than is sometimes supposed in academic debates. *See generally*, Henry E. Smith, *Property and Property Rules*, 79 N.Y.U. L. Rev. 1719 (2004). The caselaw offers this example on encroachment: one landowner builds a large structure whose foundation is a short distance over the boundary line. One possible remedy is to allow the forced purchase whereby the encroaching owner pays his neighbor the fair market value of the small strip of land taken. That approach is generally rejected and the landowner is usually allowed to require the removal of the structure, even at high positive cost. *See Geragosian v. Union Realty Co.*, 193 N.E. 726 (Mass. 1935). In that case the Court proceeded just as did the Federal Circuit below, by identifying the reasons that either fail or suffice in justifying the injunction:

> The facts that the aggrieved owner suffers little or no damage from the trespass, that the wrongdoer

> acted in good faith and would be put to disproportionate expense by removal of the trespassing structures, and that neighborly conduct as well as business judgment would require acceptance of compensation in money for the land appropriated are ordinarily no reasons for denying an injunction. Rights in real property cannot ordinarily be taken from the owner at a valuation, except under the power of eminent domain. Only when there is some estoppel or laches on the part of the plaintiff or a refusal on his part to consent to acts necessary to the removal or abatement which he demands will an injunction ordinarily be refused.

Id. at 728 (citations omitted).

Oftentimes the doctrinal explanation for this result is that the right in land is a right to exclude, period. But the functional explanation is that being tough in a small number of cases may cause needless disruption in them – but at the same time it produces a long-term systematic gain because it reduces the number of infringements that take place. There is, at the edge of this doctrine, some small degree of discretion, which is not exercised in cases of deliberate trespass but may be exercised in cases of innocent trespass (*i.e.* those discovered only after completion). But the overall tenor of these cases indicates that the common law decisions on this matter do not display the flexibility that the 52 IP Professors attribute to them.

In addition to this general claim about the overall risk of holdups, the 52 IP Professors advance the more specific claim that the royalty rates may depend on whether a patent is incorporated into a standard. "For example, one patent owner charges a 0.75% royalty for patents that don't cover industry standards, and 3.5% for patents that do cover industry standards. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property,* 17 Berkeley Tech. L. J. 1043, 1059 n. 61 (2002)." 52 IP Professors at 6. But this claim in the Patterson article, which is supported only by citation to news stories for factual support, is in fact false. The patented technology in that case was incorporated into two standards adopted by a standards setting organization. The patentee subsequently

successfully sought royalties of 0.75% for one of the standardized products and 3.5% for the other. The difference in rates between these two standardized products turned on the fact the latter incorporated more of the patented technology. The patentee also licensed its patents for an unstandardized product at 2%. *See* Initial Decision, *In the Matter of Rambus, Inc.*, FTC Docket No. 9302, Findings of Fact Nos. 502, 1546, 1558 (Feb. 23, 2004).

In addition, what is missing from their conclusion is an institutional understanding as to how this problem arises and how it may be avoided. The moment that the technology embedded in a particular patent is incorporated into a standard, by definition, the opportunities to invent around, or to substitute in alternative technology are effectively scotched, so that the reactive patterns noted in the works by *Walsh et al.*, *supra*, are much less available. In order to deal with this predictable and regular risk, some standard-setting organizations by contract require their members to disclose any issued patents they have that relate to the standard, and some impose limitations, *ex ante*, on the royalties that can be charged. *See*, *e.g.*, Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1904-07 (2002) (reviewing data on existing practices). The early warning system knocks out the holdup problem before it arises.

There are breakdowns in this system, but these tend to arise when a patent holder is able to improperly avoid its obligations under the rules of the standard setting organizations in which it participates. The solution to this problem (if it arises) lies in the drafting of clear rules regarding participants' obligations, and in the use of traditional principles of tort and contract law to sanction improper behavior. It does not lie in the alteration of the settled law on injunctive relief for patent infringement.

E. The Possibility of Patent "Trolls" Does Not Generally Justify the Denial of Injunctive Relief

The holdup question to one side, the question remains whether it is possible to advance some other reason to reject the Federal Circuit's approach to injunctive relief. Although the 52 IP Professors offer no other explicit

rationale, they appear to fear that the decision below allows patentee holders to behave like a "patent troll" – a common phrase that is, however, not used in their brief. The source of this anxiety is that "patent trolls" hold their patents neither for development nor for prospective licenses, but solely to holdup others who accidentally stumble in their path.[2]

As an initial matter, it is difficult to make any sensible estimation of the size and scope of the "patent troll" problem, due in no small part to the various and shifting definitions of what constitutes "troll" behavior. The discussion reflects ambivalence about early inventors in new technologies, who are on the one hand often said to deserve broad protection for their pioneer patents, and on the other are often accused of being "trolls" by lying in wait without actually taking steps to commercialize their technology. Alternatively, the concern about "trolls" might reflect anxiety about the uncertainty of the scope and validity of patents, as well as the high cost of patent litigation – both of which provide potential opportunities for "trolls" to exploit even weak or low-value patents. In all

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[2] One popular account of patent trolls runs as follows.

> These are lawyers and investors who buy cheaply or assume control over paper patents, mistakenly granted largely to failed companies, explains David Simon, computer firm Intel's chief patent counsel.
>
> The trolls can use these patents to threaten to shut down the entire computing industry with a court ordered injunction, no matter how minor the feature that has been patented is.
>
> Mr. Simon cites one case where a patent troll claimed a patent they had bought for about $50,000 was infringed by all of Intel's microprocessors from the Pentium II onwards and that they were seeking $7 billion in damages.
>
> In the end, the case was thrown out by the court, but it still cost Intel $3m to fight it, Mr. Simon says.

Maggie Sheils, *Technology Industry Hits out at Patent Trolls*, June 2, 2004, available at http://news.bbc.co.uk/1/hi/business/3722509.stm.

Note that this definition focuses on weak patent claims and damage actions. It does not speak to the choice between damages and injunctive relief.

cases, the question relevant to the inquiry in this case is whether injunctive relief can be fashioned in such a way that it maintains the expectations of all patentees without giving an undue benefit to patent trolls.

The first question here requires a real estimation of the seriousness of the problem. The price society pays by looking for the "troll" depends heavily on the likelihood that they will be found. If that is infrequent at best, then the cost here is that any weakening of injunctive relief has the unhappy consequence of undoing the system of voluntary licensing for valid patents that lies at the core of industrial commercialization in thousands of instances. But the identification of "trolls" is sure to be a chancy business at best – more like looking for a needle in a haystack. That search will become even harder, for once a definition is put into effect, then the formerly-passive "trolls" will have an incentive to engage in modest, arguably inefficient, licensing efforts to preserve their blocking position, assuming it was important in the first place. Indeed, finding the "trolls" will become ever harder once the law tries to carve out a special rule to deal with them. In any event, this case is a bad vehicle through which to launch a new investigation at the Supreme Court level.

In addition, denying injunctive relief (for reasons that go beyond the traditional cases like estoppel, laches, definiteness and the like) does not solve the problem if the troll is still entitled to actual, and even enhanced damages, for what is, after all, a willful infringement of a valid patent. Those other remedies are potent enough to offer real inducements to any "trolls," however identified. Indeed to the extent that enhanced damages might be increased if injunctions are denied – which cannot be ruled out a priori – little of value may be done to combat the problem.

The case for creating any anti-troll rule, moreover, does not seem all that strong because any party that is intent in playing the role of a patent troll has to pay a steep price of admission to join this club in any event. All patents are wasting assets, with less than a 20 year life, and subject to the defenses based on laches and estoppel. Second, any party that forgoes the decision to develop or

commercialize loses income today that has to be recouped tomorrow. The situation here is eerily reminiscent of the situation with predation – whereby it is said to be an antitrust offense to sell today at below cost, in the hope (often vain) to recoup those costs in some future period when there is little or no reason to be confident that the initial predator will be able to succeed. *See Matsushita Elec. Indus. v. Zenith Radio Corp.*, 475 U.S. 574, 588-594 (1986). *See also, Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993). We think that there is a very low probability that this will occur, and think further that there is no reason to explore what might be done with "trolls" in the context of a case that does not raise the problem. It is conceded on all sides that it is rational to avoid using one patented technology in order to develop another. Just as no landowner is under a duty to plant crops, so no patent holder is under a duty to exploit its patent.

We can push the land analogy one step further. Just as a fallow plot of land may attract offers for development, so a patent posted on the PTO web page and searchable for free, as all are, provides sufficient information to attract anyone seriously interested in practicing the covered technology. A patentee who is not looking to sell or license is not beyond reach of those who wish to buy or license.

In addition, the financial risks of seeking an injunction do not fall solely on the infringer but also on the patentee, who knows that if he exercises the option to hold out entirely he has to forego the substantial sums of revenue that he otherwise could receive under a licensing agreement. Those economic forces on both parties help explain why, once the court made clear an injunction was imminent, even the infamously bitter litigation over the Blackberry service settled before any disruption of service took place. What is more, the settlement price in that case is both significantly below independent estimates that reflect the holdout risk, and even more significantly below the licensee's reserves of cash and cash equivalents. *See*, Mark Heinzl & Amol Sharma, *RIM to Pay NTP $612.5 Million to Settle Blackberry Patent Suit*, Wall St. J., March

4, 2006, at A1 (noting that settlement estimates ranged to above $1 billion and that infringer's reserves of cash and cash equivalents were about $1.8 billion).

In any event, denying an injunction whenever there are adequate opportunities for the infringer to license, buy, or challenge the patent would create perverse incentives. What is more, finding the cases of "trolls" may turn out to be looking for a needle in the haystack. But there is no need to explore or resolve these numerous, fact-driven, complex trade-offs in advance of an actual controversy.

Finally, there does remain some question about what kinds of practices might count as abuses that should draw judicial attention. Without any reference to the particulars of this case, we can think of two such circumstances wherein a party enters into sham licenses with a related party in order to, one, create the appearance of patent validity, or, two, to establish an incorrect value for the patent for use in other damage actions against strangers. But we think that the usual rules against fraudulent transactions would allow a defendant in an infringement case to dispute the bona fides of the license in the first setting and the designated valuation in the second. There is no evident reason why the general rules of patent remedies should be shifted for this reason.

F. In the Instant Case the Federal Circuit was Right to Hold that the Record Showed No Extraordinary Circumstances Sufficient to Deny an Injunction

In light of the forgoing analysis, it should be clear that the Federal Circuit was right to think that this case offered no grounds for denying the injunction. *See MercExchange*, 401 F.3d at 1338-39. The argument that a growing concern with business method patents should call for a different standard is a proposition that invites chaos in this area. *See infra* at 29. It almost goes without saying that a court should never deny an injunction because a case is hotly disputed, unless it wishes to ask parties to take extreme positions to avoid equitable relief. *See infra* at 26-27. Similarly, it would be unwise to deny an injunction simply because there is risk of continuing dispute triggering the need for contempt

proceedings. *See infra* at 29. There is no reason as a matter of public policy for any court to act as an industrial czar by denying injunctive relief to parties who choose to license, not practice their patents. *See infra* at 27-28. Finally, it is irrelevant whether a patentee has sought a preliminary injunction. *See infra* at 30.

In sum, this case does not present any circumstance that remotely resembles those in which a court in its sound discretion should refuse to issue an injunction. As this brief has shown, the Federal Circuit has done an admirable job in deciding when and why a permanent injunction should be awarded. In fact, its decisions have examined the various arguments urged to deny injunctive relief one by one, and have across the board been able to separate the wheat from the chaff. The point here is not only true as a matter of precedent, but as we show in our next section, as a matter of sound public policy as well.

III. A Sound Public Policy Strongly Favors the Categorical Approach of the Federal Circuit

A. The Parties, Not the Courts, Should Make the Key Decisions on Patent Deployment

There are important reasons for leaving negotiations over patents to the parties, not the courts. In particular, the current regime on injunctive relief enhances certainty, improves predictability, encourages timely resolution of disputes, and conserves judicial resources.

First, by limiting the circumstances under which an adjudged infringer can reasonably expect to escape injunctive relief, the Federal Circuit's approach provides much-needed certainty and transparency to the process of patent enforcement. The law has consistently held that patents are "rights against the world" because predictability stemming from that view of the world is valuable not only to parties to live disputes, but also for all actors who work and trade in the relevant marketplace. This property rights regime helps build the stable investments and relationships needed to get inventions commercialized. Such predictability also helps encourage private resolution via licensing or assignment for whatever disputes do arise.

Second, the current regime favoring permanent injunctive relief encourages parties to patent disputes to resolve differences at earlier stages of the litigation, by removing most of the uncertainty related to the remedies that will follow a finding of infringement. This is especially true in contrast to the ad hoc, open-ended analysis urged by the 52 IP Professors, which places the question of granting permanent injunctive relief (which comes at the end of the proceedings) as a major decisional point in patent litigation, thereby increasing the likelihood that parties will litigate to that point.

Third, by carefully limiting the circumstances under which the district courts must engage in a full-blown cost/benefit analysis of a permanent injunction, the present approach conserves judicial resources. More specifically, the strong default rule discharges a valuable gate-keeping function – ensuring that only those cases where serious public policy concerns arise are afforded a difficult and intensely-fact driven analysis concerning an injunction.

Fourth, the strong property rule aids in the successful commercialization of patented products. That elaborate process of bringing new products to market inevitably requires deals to be made at all stages of development. We can therefore expect as a matter of course that disputes will occur both early and late in the commercialization process. At all stages, however, the deals that get struck around patents are complex. Setting the right price alone requires an immense amount of information that already is in the hands of the parties themselves. It is for this reason that commentators have expressed concern that courts will err by setting the price either too low or too high. The former will lead to a rush to overuse the product. The latter will block its deployment unless the parties bargain around the judicial price. But either way the error and administrative costs, will be far higher than for voluntary exchanges.[3]

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[3] *See* Richard A. Epstein, *A Clear View of The Cathedral: The Dominance of Property Rules*, 106 Yale L.J. 2091 (1997) (noting the general under compensation problem associated with allowing courts to

(Continued on following page)

Often price is not the only important term in these deals and courts are woefully inadequate compared to the marketplace for determining and enforcing these other terms. While private ordering among parties can lead to textured contracts having many terms including price but also including a host of seemingly esoteric and unique provisions – such as technical support, field-of-use or territory limitations, grant-backs, cross-licenses, payment schedules, most-favored-nation provisions, etc. – a court imposed damage award is in all but the rarest of cases reduced to a simple monetary amount. Insofar as permanent injunctions only enforce patent rights, they set the stage for voluntary transactions by way of license or assignment. As noted earlier, there is no consistent fear of holdups that justifies weakening the rules of injunctive relief.

B. Limiting the Application of Permanent Injunctions Is a Poor Tool with which to Address Patent Quality Concerns

By all accounts, the oft-expressed concerns about the quality of issued patents is an important public policy issue facing the patent system today. Nonetheless manipulating the standard for granting permanent injunctions offers an exceedingly poor vehicle to respond to that issue.

First, a question of whether to award a permanent injunction arises only after a patent has been adjudged valid and infringed. Thus, among all issued patents, those patents that become the basis of a permanent injunction have survived the rigors of litigation, and thus are ones about which there should be the greatest confidence regarding validity rather than the least. Penalizing the holders of relatively high-quality patents (those adjudged to be both valid and infringed) as a mechanism to defeat the effect of low-quality patents is more than deeply ironic. It also illuminates the attenuated link between the remedies

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set a price for infringement rather than enforcing a property right with an injunction). *See also* Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 Colum. L. Rev. 2655, 2664 (1994) (noting that injunctions generally make sense because private parties have a comparative advantage over courts in valuing patents).

offered to valid and infringed patents and the marketplace effects of issued-but-invalid patents.

Any rule that greatly diminished the likelihood for a permanent injunction is unlikely to be beneficial on net. First, any social gains accruing from reducing the power (the expected value of the results of litigation) of low-quality patents would be offset by the social losses resulting from reducing the power of valid patents. Second, since the courts are far less likely than the parties to correctly set the terms of licenses to valid and infringed patents, the real effects of such a rule are wildly unpredictable.

Finally, if low-quality patents increase the level of marketplace uncertainty, then it only makes matters worse, not better, to inject an additional layer of profound unpredictability into the patent enforcement process. That uncertainty at the remedial stage will reflect itself in the reduction in investment in innovation, which in turn could give low value patents a larger role in the marketplace than they now have. The direct attack on patent quality is far superior to altering the rules on remedies, where the new uncertainty falls on high and low-quality patents alike.

C. Denying an Injunction on the Basis of a Patentee's Negotiating Approach Is Perverse

The Federal Circuit has rightly resisted the suggestion that any decision to treat a case as exceptional should turn on whether attempted negotiations have broken down because the patentee improperly decides to holdout. In principle, it is far from clear-cut whether a refusal to deal is inefficient. For example, the patentee may not want to offer a license to the infringer because the patentee wants to facilitate its own commercialization efforts. Or the patentee may choose to license a different party on an exclusive basis. Or a patentee may holdout because it wants to cross-license other patents, not merely to receive a royalty. Frequently, both parties actually are holding out when the deal breaks down. It is therefore dangerous at the remedial stage of a trial to act as though only the patentee has engaged in holdout behavior, without knowledge of the full pattern of business negotiations.

What is more, this proposed test suffers from a fundamental circularity that would create perverse, harmful incentives. If the ability to avoid the injunction hinged upon the failure of a deal getting done, then there would be a markedly increased incentive for those wanting to obtain use through court-ordered terms to resist striking licensing deals. A legal test that rewards a failure to cooperate would lead to a decrease in cooperation, not an increase.

D. The Patentee's Business Model Should Be Wholly Irrelevant to the Choice of Remedy in Infringement Cases

First, as a fundamental matter, the federal courts simply should not be evaluating the appropriateness of patentees' business models. It would be profoundly imprudent to base the test for an exceptional case on whether the patentee is "practicing the patent." The only way a patentee extracts economic value from a patent is if the patentee or its licensee practices a technology that is covered by the patent or in competition with a covered technology. It is difficult to imagine a rational actor who will first spend the significant costs to obtain a patent and then defend it in litigation, without seeking to extract economic value from its investment.

Second, many patentees' entire business models are tied to their expertise in inventing and developing technologies, but not manufacturing them. Other patentees may have exited an entire line of business for which they have developed a large portfolio of patents. In either case, such patentees may need to engage in hard bargaining with parties that own the complementary assets it must use to commercialize its own invention. It takes time to develop large facilities for manufacturing, distributing, and marketing, and to find the right business partners for these tasks. Hinging the right to a permanent injunction on whether patentees already are "practicing" the patent puts them in an intolerable position. Either they accept terms offered by an earlier comer or risk losing their exclusive position.

Third, the use of a permanent injunction may facilitate cooperative bargaining, not frustrate it, forcing outsiders to license technologies they wish to use. *See MercExchange*, 401 F.3d at 1339. Awarding the permanent

injunction allows agreement on terms acceptable to the patentee, which has the salutary effect of forcing an actual or would-be infringer to the bargaining table. A patentee has strong economic incentives to license in such cases, so as to gain ongoing value from its innovation, precisely because the patentee is non practicing. It would be particularly destructive to deny the permanent injunction to a patentee who had tried to commercialize but failed because it could not raise sufficient funds. The supposed "patent troll" may actually be a small entrepreneur trying desperately to negotiate with large infringers.

Absent the availability of such a business model, society would be forced to rely solely on large, vertically integrated firms for basic research and development. The literature on the theory of the firm generally recognizes the inherent tension between controlling transaction costs when working together in an open market on the one hand, and solving problems of agency costs, asset specificity, and opportunism when working together within the hierarchy of a firm on the other hand.[4] While no single balance works to reconcile these two concerns in all cases, any rule that makes access to an injunction contingent on whether a patentee is practicing the invention would provide an incentive inefficiently to shift industrial organization too far in the direction of integration and hierarchy. The greater the number of available business models the better. There is nothing that says that technical innovators and business managers necessarily belong in the same firm. Separating the research from the development business may allow for an efficient division of labor between innovation and production.

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[4] *See, e.g.*, Ronald Coase, *The Nature of the Firm*, 4 Economica 390 (1937); Oliver E. Williamson, *The Economic Institutions of Capitalism*, 20-21 (1985). Agency costs refer to the conflict of interest between a principal and agent, which could lead to underinvestment by the agent; asset specificity refers to the bargaining risks that arise when one party invents an asset that is used only in a particular business. Opportunism refers to any situation where a party backs out on a promise after the other side has committed its resources.

E. Denying an Injunction on the Basis of the Type of a Patent or Its Perceived Scope Is Impermissible as well as Unwise

Last, it is a mistake to let the validity of a patent, or the choice of remedy, turn on whether the litigation involves a "business method" patent instead of a more traditional industrial invention. First, that test would impose an additional definitional burden, for the distinction between business patents methods and, say, software patents, will prove far from elear in many cases. The problem is likely to become quite acute in patent filings that contain multiple related claims. For example, these line drawing problems had proved so famously problematic in the courts, that the Federal Circuit concluded it made no sense under existing law to adopt some special rule for business method patents. *See State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998). Any public policy concerns with business method patents should be addressed at the legislative level.

In a similar fashion it would be most unwise to allow the choice of remedy in infringement cases turn on deciding whether other parties might be able to design around the patent. That approach raises unnecessary problems of line drawing and efficiency. As the Federal Circuit noted, "A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights." *MercExchange*, 401 F.3d at 1339. Indeed, it may be less expensive to resolve such disputes in the context of contempt proceedings to enforce the injunction than injecting them into full blown infringement litigation. Worse still, any inquiry into designing around creates an unhappy form of circularity. If parties know that they must design around a patent, they are more likely to do so. If they think that they can, by not designing around, force the license from the patent owner, they will be less likely to do so. That level of effort will in turn act as a self-fulfilling prophecy. If people are told that they do not have to design around, then they will report that they have not been able to do so. Put differently, they

will then have the incentive to expend ingenuity in litigation, not on innovation.

F. It Is Irrelevant Whether a Patentee Has Sought a Preliminary Injunction

Finally, letting the test for a permanent injunction turn on whether the plaintiff sought a preliminary injunction misunderstands the goals of the two types of injunctions, and the relationship between them. As the Federal Circuit correctly pointed out: "A preliminary injunction is extraordinary relief that is available only on a special showing of need for relief *pendente lite*; a preliminary injunction and a permanent injunction 'are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes.' *Id.* (quoting *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996)). And as with the other proposed tests, the incentives created by this test would be perverse. If the test for a permanent injunction hinged on whether the patentee had sought a preliminary injunction then patentees would have inappropriately increased incentives to seek preliminary injunctions before the validity and infringement of their patents had been tested, simply to preserve their ability to obtain a permanent injunction if and when they prevail on the merits.

CONCLUSION

Amici respectfully urge this Court to affirm the Federal Circuit's decision and confirm the court's long-standing rule that absent exceptional circumstances a permanent injunction should issue to enforce a patent adjudged to be valid and infringed.

Respectfully submitted,

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EBAY INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF WISCONSIN ALUMNI RESEARCH FOUNDATION, AMERICAN COUNCIL ON EDUCATION, ASSOCIATION OF UNIVERSITY TECHNOLOGY MANAGERS, BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS, CALIFORNIA INSTITUTE OF TECHNOLOGY, NDSU RESEARCH FOUNDATION, REGENTS OF THE UNIVERSITY OF CALIFORNIA, RESEARCH CORPORATION TECHNOLOGIES, TEXAS A&M UNIVERSITY SYSTEM'S OFFICE OF TECHNOLOGY COMMERCIALIZATION, UNIVERSITY OF VIRGINIA PATENT FOUNDATION AND WASHINGTON RESEARCH FOUNDATION AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

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National Science Foundation, *Science and Engineering Indicators 2004*, *available at* http://www.nsf.gov/statistics/seind04/c5/c5s1.htm 1

INTEREST OF *AMICI CURIAE* [1]

Amici are universities, entities affiliated with universities, the nation's higher education association, and entities involved in university technology management.[2] *Amici* engage in and support scientific research, obtain patents on inventions arising from the research, license the technologies to companies for commercialization and then use the licensing income to underwrite further academic research.[3]

The academic sector drives research and innovation in the United States. By 2002, the sector accounted for an estimated 54% of the basic research conducted in this country.[4] The nonprofit research community carries out much of this work under the Patent and Trademark Law Amendments of 1980, commonly known as the Bayh-Dole Act ("the Act" or "Bayh-Dole"),[5] and its implementing regulations (37 C.F.R. Part 401). Congress passed the Act in 1980 to (a) nurture

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[1] The parties have consented to the filing of this brief in global consents to the filing of amicus briefs in support of any party that have been lodged with the Clerk. Pursuant to Rule 37.6, *amici* state that no counsel for a party has written this brief in whole or in part and that no person or entity, other than these *amici* or their counsel, has made any monetary contributions to the preparation or submission of this brief.

[2] These entities are collectively referred to variously as "universities," the "academic sector" and/or "research institutions."

[3] In this brief, *amici* employ the shorthand term "technology transfer" to refer to this transfer of research results and new technologies from universities to the commercial marketplace.

[4] National Science Foundation, *Science and Engineering Indicators 2004*, *available at* http://www.nsf.gov/statistics/seind04/c5/c5s1.htm. In 2002, academic institutions spent $33 billion on research and development, of which $19 billion came from the federal government and $6.7 billion from the academic institutions themselves. National Science Foundation, *Science and Engineering Indicators 2004*, *available at* http://www.nsf.gov/statistics/seind04/c5/c5h.htm.

[5] Pub. L. No. 96-517, 94 Stat. 3019 (1980), codified at 35 U.S.C. §§ 200-212.

and spur research in the academic sector; and (b) promote university-industry collaborative relationships that would ensure that the fruits of university research reached and benefited the public.[6]

Amicus Wisconsin Alumni Research Foundation ("WARF") was founded in 1925 as a nonprofit entity to promote, encourage and aid scientific investigation at the University of Wisconsin-Madison ("UW-Madison"). One of WARF's first accomplishments was to patent a vitamin D discovery that eventually eliminated the childhood disease rickets worldwide. Since its founding, WARF has processed approximately 4,800 inventions created by UW-Madison faculty and staff, obtained 1,540 U.S. patents on these inventions, entered into over 1,390 license agreements with companies around the globe and returned $800 million in licensing fee income to UW-Madison to fund research programs and initiatives.

The Bayh-Dole Act has made it possible for WARF to make the contributions to the public good that it does today. In the middle to late 1960s, government agencies kept title to inventions that had been funded with federal money. As a consequence, invention disclosures to WARF had fallen to barely one per month, and what few disclosures there were had fallen in quality.[7] The situation improved somewhat when Institutional Patent Agreements ("IPAs") were negotiated with (what is now) the Department of Health and Human Services ("HHS") in 1968 and the National Science Foundation ("NSF") in 1973. These IPAs gave WARF (and

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[6] Entities such as *amici* that do not manufacture their inventions, but instead license them to the private sector for development and commercial marketing, sometimes are referred to in this brief as "non-manufacturing entities."

[7] An "invention disclosure" is a document prepared by an inventor to describe the invention made for use in a potential patent application.

other universities) the right to elect to take title to inventions made with funds from those two agencies.[8]

Since the enactment of Bayh-Dole, invention disclosures to WARF have mushroomed. Today, WARF (a) manages over 720 pending and 880 issued U.S. patents on UW-Madison technologies, as well as 1,920 foreign equivalents; (b) offers more than 3,800 technologies for licensing; (c) maintains more than 940 active commercial license agreements, as well as 460 academic licenses; (d) has over 160 license agreements with Wisconsin companies; and (e) holds equity in 40 UW-Madison spin-off companies. WARF's most important patents include the blood anticoagulant Warfarin; a coating process making pills easier to swallow; treatments for osteoporosis and cancer; magnetic resonance techniques; and a discovery known as the "Wisconsin Solution" that prolongs the use of transplant organs.

Amicus American Council on Education ("ACE"), founded in 1918, is the nation's coordinating higher education association. ACE is dedicated to the belief that equal educational opportunity and a higher education system are essential cornerstones of a democratic society. ACE's 1,800 members include accredited, degree-granting colleges and universities from all sectors of higher education and other education and education-related organizations. ACE is a forum for the discussion of major issues related to higher education and its potential to contribute to the quality of American life. ACE regularly represents its members before this Court, other federal courts, Congress and federal agencies.

Amicus Association of University Technology Managers ("AUTM") is a global network of members who represent more than 350 universities, research institutions, teaching

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[8] The IPAs were evolutionary steps that led to the Bayh-Dole Act. In essence, the terms and provisions of the Bayh-Dole Act codified IPA provisions.

hospitals and government agencies, as well as hundreds of companies involved with managing and licensing innovations derived from academic and nonprofit research. AUTM was founded in 1974 as the Society of University Patent Administrators to address a concern that inventions funded by the U.S. government were not being effectively commercialized. Through the years, AUTM has grown beyond this single objective and now provides professional development and networking opportunities for technology transfer professionals at all career levels and from established and newly forming organizations worldwide.

Amicus Board of Trustees of the University of Illinois ("University of Illinois") has a rich history of accomplishment and leadership in research and technology and its facilities include state-of-the-art laboratories to facilitate research and development. University of Illinois researchers conduct cutting-edge research in the fields of the life sciences, medicine, food and agriculture, animal sciences and veterinary medicine, engineering, the physical sciences, energy, the environment, computer science, software and information technology.

Inventions developed by University of Illinois researchers have led to numerous research awards, patents, and important commercial applications. The University of Illinois works with for-profit companies to transfer the benefits of its discoveries to the public. In 2004, the University of Illinois (a) filed 108 U.S. patent applications; (b) received notice of issuance of 59 U.S. patents; (c) executed 88 new licenses and license options; (d) maintained 164 active licenses and options; and (e) had a role in the formation and licensing of 16 start-up companies.

Amicus California Institute of Technology ("Caltech"), a small private university, has filed 1,137 nonprovisional patent applications and had 1,093 patents issue since October 1995. During that time period, it has granted over 300 licenses,

including 99 to Caltech start-up companies, and presently has 241 active licenses.

Amicus NDSU Research Foundation ("NDSU/RF") is an independent not-for-profit organization that supports research at North Dakota State University by facilitating the protection and licensing of intellectual property developed at North Dakota State University and assigned to NDSU/RF. Research is supported by distributing a portion of the licensing revenue to researchers as well as by other funding.

Amicus Regents of the University of California provides for technology transfer from ten campuses and five medical schools in the State, and from three national laboratories operated by the University of California system on behalf of the U.S. Department of Energy. Currently, there are more than 3,000 ongoing research projects supervised by 13,000 principal investigators.

In the last ten years alone, these efforts have led to three Nobel prizes and a long list of pioneering research discoveries in biochemistry, bioengineering, cell biology, disease procedures, developmental biology, endocrinology, genetics, immunology, neurobiology, oral biology, pharmacy and pharmacology. Those pathbreaking discoveries include: the hepatitis B vaccine; a human growth hormone; a method to treat aneurysms by use of a catheter instead of opening the skull; cochlear implants to help the hearing impaired; a method for detecting feline immune deficiency virus; a method for detecting chromosome abnormalities; a laser system to enhance treatment of skin conditions; and a new atomic force microscope.

Amicus Research Corporation Technologies is an independent technology management company that has been involved in providing commercialization services to academia and other institutions since its founding in 1912. It has been pivotal to the success of many important pharma-

ceuticals, diagnostics, biotechnology products, and new materials and processes. Recent products include three in the cancer area: the widely used therapeutic compounds Cisplatin and Carboplatin and the PSA (Prostate Specific Antigen) test for diagnosing and monitoring prostate cancer.

Amicus Texas A&M University System's Office of Technology Commercialization ("Office") manages the intellectual property for eighteen universities, state agencies and health science center on behalf of the State of Texas. The Office maintains a portfolio of more than 600 license agreements extending rights to industry partners for an effective transfer of technology for the benefit of the public. Additionally, it manages the prosecution and maintenance of more than 1,500 patents and patent applications.

Amicus University of Virginia Patent Foundation is a not-for-profit corporation that evaluates intellectual property generated in the course of research at the University of Virginia ("UVA"), seeks to protect those inventions that show commercial potential, and licenses those rights to industry. The Patent Foundation thus serves to promote the entry of UVA technologies into the commercial marketplace, which also generates royalty income to support additional research at UVA.

The Patent Foundation reviews and evaluates over 150 inventions per year. A third of those typically are successfully licensed to commercial partners for further development and commercial use. Of the inventions licensed to industry, almost half are licensed to UVA-affiliated start-up companies. Supporting the creation of local start-up companies and giving them licensing preference is a key component of the Patent Foundation's faculty service mission, and has the important benefit of promoting local economic growth.

Amicus Washington Research Foundation ("WRF") was founded in 1981 to assist universities and other nonprofit

research institutions in the State of Washington with commercialization of their technologies and to provide support, through gifts and grants, for scholarship and research. WRF is an independent private foundation whose operational revenue comes from retained funds from licensing and investing activities. WRF has given gifts and licensing disbursements to the University of Washington totaling more than $150 million.

WRF has benefited Washington State research institutions by licensing a variety of technologies to industry, including the basis for hepatitis B virus vaccine, blood clotting factors, recombinant insulin, and wireless technology supporting the "Bluetooth" protocol. The gifts from WRF have supported the creation of over 100 endowments for chairs, professorships, research fellowships and graduate stipends in science, medicine and engineering. Educational programs created and supported by WRF include the Center for Technology Entrepreneurship (University of Washington Business School) and the Program for Technology Commercialization (University of Washington Bioengineering). WRF was a founding supporter of technology "gap" funding programs at the University of Washington, the Fred Hutchinson Cancer Research Center, and Washington State University.

The academic technology transfer work required to accomplish these extraordinary results is always arduous, sometimes grueling, and for most institutions, only modestly remunerative. University of Michigan President Mary Sue Coleman recently explained why universities nonetheless engage in technology transfer:

> Many people are often confused about why we are interested in technology commercialization, in nurturing startup companies, and in facilitating more patents and license agreements.
>
> It is not about the promise of future revenues that might be generated from this activity.

> You heard me correctly. It is not about the money.... Technology transfer must serve our core mission: sharing ideas and innovations in the service of society's well-being.[9]

Amici submit this brief to provide the Court with an academic sector perspective on the technology transfer issues underlying this case. The brief focuses on the risks that limiting the availability of injunctive relief would pose to the technology transfer capabilities of the university sector and the continued vitality of the Bayh-Dole Act.

SUMMARY OF ARGUMENT

The Court should not modify the rule of law set forth in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), and its progeny on when it is appropriate to grant a permanent injunction against a patent infringer. Under those precedents, a patentee's non-use of an invention does not bar the issuance of a permanent injunction.

This rule is grounded in the constitutional and statutory right of patentees to exclude others from reaping the fruits of the patented inventions. It has made it possible for the university sector to grow and flourish through the licensing of its inventions and through investing in start-up companies that develop the inventions with the aid of private investors.

Neither the United States Constitution, the patent laws nor this Court's jurisprudence recognizes, let alone draws, any distinction between patentees that manufacture and those that license their patented inventions. Any distinction limiting the availability of permanent injunctive relief to the latter group of patentees would harm the university sector, and the start-up companies and other licensees on which universities

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[9] *AUTM U.S. Licensing Survey: FY 2004*, *available at* http://www.autm.net/surveys/dsp.surveyDetail.cfm?pid=28 (follow "Download PDF of abridged FY 2004 U.S. Survey Summary").

depend to develop and market their inventions for the benefit of the public.

Petitioners suggest that patents owned by entities that do not manufacture their inventions are less worthy of injunctive protection. Petitioners' rationale is that injunctions such entities currently can obtain against those that infringe their patents present a "growing problem for the economy." Br. 24.

In the academic research context, however, just the reverse is true. Congress enacted the Bayh-Dole Act in 1980 to encourage universities and other nonprofit institutions to develop patented technologies with federal funds and then partner with the private sector to commercialize the technologies for the public's benefit. This partnership has been extraordinarily successful, with hundreds of blockbuster drugs and other products put in the stream of commerce, all to the benefit of society in the form of new products and processes. Narrowing the availability of permanent injunctive relief would harm the economy and undermine the purpose of the Act.

Making it more difficult for non-manufacturing entities like universities to obtain permanent injunctions also would reduce the leverage the academic sector needs to negotiate reasonable licensing agreements with potential licensees. Limiting injunctive relief similarly would mean that the academic sector could no longer count on the right to exclusive use of an invention that the availability of an injunction protects. Universities need such certainty to form and invest in start-up companies built on university inventions.

So do investors: if injunctions were not available, investors would shy away from such ventures. This in turn would discourage the formation of start-up companies to advance early stage technology, make it more difficult to obtain the necessary equity, and limit the development of such innovative companies. Such a consequence would undercut the

universities' constitutional and statutory right to exclude and would undermine the Bayh-Dole Act.

ARGUMENT

INTRODUCTION

A recurring theme in petitioners' brief, and those of its supporting *amici*, is that non-manufacturing entities threaten to become a plague on modern society and that this Court's long-standing approach to permanent injunctions only makes matters worse. According to petitioners (Br. 47), the "relevant economic contexts" have changed dramatically since this Court's 1908 *Continental Paper Bag* decision. As goods and services have become increasingly complex and technology has advanced, "a patent holder's ability to leverage and abuse an automatic entitlement to an injunction" supposedly has increased. *Id.* Unless this Court intervenes, petitioners warn, untold harm will befall not only "innocent employees and consumers," but also vital parts of the economy, "such as the capital markets and the banking system." *Id.*[10]

In what follows, *amici* show that petitioners' doomsday scenario has no basis in fact or law. There is no constitutional, statutory or precedential support for the limits on injunctive relief petitioners suggest should be placed on patentees that license, but do not manufacture their inventions. To the contrary, Congress has expressly encouraged the academic sector to license its inventions. Moreover, university research *drives*, not harms, today's technology-based economy and, without the availability of injunctive

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[10] Petitioners first lump non-manufacturing entities with "professional patent litigators," but then appear to try to draw a line between non-manufacturing entities that develop and license patents, and those that do not. *Id.* Petitioners do not explain how a principled line can be drawn between "good" and "bad" non-manufacturing entities.

relief, research institutions like *amici* and their licensees will be harmed, contrary to the intent of Congress and the public interest.

I. ALL PATENTEES SHOULD CONTINUE TO HAVE THE SAME RIGHT TO PERMANENT INJUNCTIVE RELIEF

Article I, § 8, cl. 8 of the United States Constitution empowers Congress to promote the progress of the "useful Arts" by giving inventors "the exclusive Right to their . . . Discoveries" for a limited period of time. Congress exercised that power by conferring on *every* patentee "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States" for a limited term. 35 U.S.C. § 154(a)(1)-(2). A patent accordingly carries with it "the right to exclude others from making, using, or vending the thing patented without the permission of the patentee." *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 463 (1922); *see Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention.").

As explained at length in the brief of *amici curiae* American Intellectual Property Law Association and Federal Circuit Bar Association (at 21-23), when it comes to the exercise of this right to exclude, neither the Constitution nor the patent law picks and chooses among patentees so as to disfavor those that do not use their patents. Moreover, Congress repeatedly has rejected efforts to alter this statutory policy and limit this right by imposing a forfeiture or compulsory licensing penalty on such patentees. *Id.* at 22-23.

As demonstrated below, any deviation from this well-settled law would harm the university sector in particular. Nonprofit research institutions and their licensees depend on

outside investors. Such investors would be reluctant to underwrite the costly development of inventions without the certainty that competitors would not rob them of the fruits of their inventions through infringement.

II. TREATING NON-MANUFACTURING ENTITIES AS SECOND-CLASS PATENTEES WOULD BE CONTRARY TO THE BAYH-DOLE ACT AND THREATEN THE ACT'S CONTINUED SUCCESS

A. The Impetus Behind The Act

The Bayh-Dole Act grew out of the crisis in productivity faced by the United States beginning in the 1970s. H.R. Report No. 96-1307(I) (1980) ("H.R.") at 1-2, *as reprinted in* 1980 U.S.C.C.A.N. 6460, 6460-61. As explained in the House Report accompanying the bill:

> Many analysts of the U.S. economy have warned that the roots of the current recession lie in a longer term economic malaise which arises out of a failure of American industry to keep pace with the increased productivity of foreign competitors.
>
> . . . There has been an especially significant decline in total U.S. expenditures for research and development, as measured in constant dollars since 1970. Since the primary means of improving productivity lies in the creation of new technologies, the decline in expenditures for research and development is especially significant to the health of the overall economy.

Id. (footnotes omitted).

For that reason, "the effective commercialization of government financed research" was becoming an "ever more important issue for those who [were] concerned with Industrial innovation," and "[s]pecial emphasis was placed on the role of the patent system and the patent policy regarding

government funded research in promoting industrial innovation." *Id.* at 2, *as reprinted in* 1980 U.S.C.C.A.N. at 6461.

B. The Purpose And Goals Of The Act

The policy and objective of the Bayh-Dole Act are set out in the first section of the Act: "[T]o use the patent system to promote the utilization of inventions arising from federally supported research or development." 35 U.S.C. § 200. The Act is designed to "encourage private industry to utilize government funded inventions arising through the commitment of the risk capital necessary to develop such inventions to the point of commercial application." H.R. at 3, *as reprinted in* 1980 U.S.C.C.A.N. at 6462. The Act specifically

> addresses the special needs of Universities and small businesses when they attempt to deal with patent issues arising out of government contracts. Both of these groups lack the resources to cope with the bewildering regulatory and bureaucratic problems associated with transfer of patent rights pursuant to government contracts; and the university sector in particular is an important link to the private sector.

Id.

A primary goal of the Act is to ensure that the patent system promotes "collaboration between commercial concerns and nonprofit organizations, including universities," and that "inventions made by non-profit organizations and small business firms are used in a manner to promote free competition and enterprise." 35 U.S.C. § 200. To that end, the Act gives "preferential treatment" to "[n]on-profit research institutions and small businesses" by means of a statutory presumption that such entities, and not the federal government, hold title to any inventions funded in whole or in part by the federal government. H.R. at 5, *as reprinted in* 1980 U.S.C.C.A.N. at 6464.

C. The Act's University-Private Sector Partnership Has Been An Unqualified Success

It is not farfetched to view the Act as "[p]ossibly the most inspired piece of legislation to be enacted in America over the past half-century," and one that "helped to reverse America's precipitous slide into industrial irrelevance."[11] The university sector's experience over the past twenty-five years is a testament to the Act's success. During that time, the number of U.S. patents issued to universities and the number of universities engaging in technology transfer activities have increased exponentially. The economic impact of the commercialization of the universities' new technologies has been just as dramatic. By 2000, they had added over $30 billion to the U.S. economy, created 250,000 jobs and led to the spin-off of over 2,200 new companies.[12]

The Act (and its predecessor IPAs with HHS and NSF) also have led to many cutting-edge science and technology breakthroughs by the university sector which have been of immeasurable value to the health and welfare of the public. In addition to those *amici* have made, such breakthroughs include MRI body scanning (State University of New York at Stony Brook), the vaccine for hepatitis B (Institute for Cancer Research) and the technique behind Google's search engine (Stanford University).

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[11] *Innovation's Golden Goose*, The Economist, Dec. 14, 2002.

[12] *See, e.g.*, Q. Todd Dickinson, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, Remarks at the National Academies: Board on Science, Technology and Economic Policy, at 3 (Feb. 2, 2000), *available at* http://72.14.207.104/search?q=cache:QbatTS5jyYwJ:www.uspto.gov/web/offices/ac/ahrpa/opa/bulletin/academies.pdf+Todd+Dickinson+Board+on+Science+technology+and+Economic+%2430+billion&hl=en&gl=us&ct=clnk&cd=2.

Data from the recently released *AUTM U.S. Licensing Survey: FY 2004*[13] further confirm the effectiveness of the Act and the importance of the university-private sector partnership it created:

> *Patents and Technology Licensing*: In 2004, universities received more than 3,600 U.S. patents. Less than 250 were issued to universities in 1980, the year Congress passed the Bayh-Dole Act. Universities entered into 4,783 new licenses and had 27,322 active licenses in 2004.[14]
>
> *License and Royalty Income Earned to Support Further Research*: License income in 2004 was $1.385 billion, with royalties on product sales $1.122 billion. The bulk of this income supports the university sector and academic research.
>
> *Products Brought to Market*: Over 500 products based on university or nonprofit research results came on the market in 2004. Since 1998, over 3,100 new products have entered the marketplace. More than 300 biotechnology drug products, and vaccines targeting more than 200 diseases—including various cancers, Alzheimer's disease, heart disease, diabetes, multiple sclerosis, AIDS and arthritis—are in clinical trials.[15] This continued

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[13] http://www.autm.net/surveys/dsp.surveyDetail.cfm?pid=28 (follow "Download PDF of abridged FY 2004 U.S. Survey Summary").

[14] These figures include options to take a license, as well as executed license agreements.

[15] This product development activity contrasts sharply with the level before the Bayh-Dole Act, when the government held title to patents discovered with federal funding. A 1968 study found that *no* drug on which the government held the patent had *ever* been commercially developed and become available to the public. *AUTM U.S. Licensing Survey: FY 2004*, *available at* http://www.autm.net/surveys/dsp.surveyDetail.cfm?pid=28 (follow "Download PDF of abridged FY 2004 U.S. Survey Summary"). By 1980, 28,000 government-funded patents lay on the shelf gathering dust, as the federal government had licensed less than 5% of the patents to which it held title for commercial development. *Id.*; GAO

momentum in the rate of new product introductions is one of the most concrete measures of public benefit from technology transfer.

Start-up Companies: Nearly 68% of the new licenses were taken by newly formed or existing small companies (fewer than 500 employees), and over 90% of these licenses were exclusive. Since 1980, U.S. universities, hospitals and research institutes have spun off 4,543 companies based on licenses from those institutions. Two-thirds of these companies are still operating. This very high survival rate demonstrates the successful application of these technologies in the market.

In view of the success of the Bayh-Dole Act and the technological and innovative contributions to the economy made by the academic sector, petitioners' notion that such non-manufacturing entities wreak havoc with the economy such that their right to injunctive relief should be curtailed has no basis in fact. Nor does it have any legal foundation: Congress singled out research institutions for "preferential treatment" in the Bayh-Dole Act, and made it *easier*, not more difficult for research institutions to license instead of manufacturing their inventions.

D. Without Injunctive Relief, Universities Would Find It More Difficult To License Their Inventions

Compared to their industry counterparts, universities come to the bargaining table at a distinct economic and tactical disadvantage. Unlike industry patent holders, university licensors rarely are capable of directly commercializing the patented technologies. Patent licensing is often the main, if not the only way universities can fulfill their obligations

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Report, *Technology Transfer: Administration of the Bayh-Dole Act by Research Universities*, at 3 (May 7, 1998).

under Bayh-Dole and transfer their patented innovations for the benefit of the public.

Major potential private sector licensees believe (with some justification) that universities have neither the resources nor the stomach for expensive and protracted patent litigation. Without the leverage of injunctive relief, a potential licensee might well conclude that willful infringement makes more economic sense than taking a license. *See, e.g., Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978). Such a gamble would be even more worthwhile if the current licensee were a relatively small company and the infringer wanted to dominate the market. The negative impact on university technology transfer could be substantial, and the effect upon innovation and the benefits it conveys to the public equally adverse.

The availability of injunctive relief shields the academic sector from such an outcome. Injunctive relief gives an academic sector patent owner leverage in persuading a private sector entity to risk the money needed to develop a product or technology and bring it to market. The risk of a permanent injunction enforcing the right to exclude is a powerful deterrent for potential infringers and motivates those that acquire a license to risk money on development and commercialization. Such an incentive for potential investors, and such a deterrent for potential infringers, is particularly important to university licensors.

E. Restricting Injunctive Relief Also Would Have A Negative Impact On The Small Companies On Which Universities Depend To Bring Their Inventions To The Public

A corollary goal of the Bayh-Dole Act is to stimulate small business development through the commercialization of federally funded university inventions: "It is the policy and objective of the Congress to . . . encourage maximum par-

ticipation of small business firms in federally supported research and development efforts; . . . ." 35 U.S.C. § 200. This policy objective is now being reached, as every State looks to its universities as engines of innovation and economic development that will spin off start-up technology companies. Hotbeds of innovation already exist in the San Francisco Bay, San Diego, Boston, Washington, DC and Atlanta areas. *Amici* alone have taken equity in hundreds of start-up companies, all founded to develop federally funded inventions.

Each of these companies required at least some degree of exclusivity in its license agreements. Congress implicitly recognized that exclusivity was required to assure investors that investing was a reasonable risk. Indeed, Congress amended the Bayh-Dole Act in 1984 to expand the ability to grant exclusive licenses.[16] With these exclusive rights, investors could be assured of an opportunity to make a reasonable return on their investment. Without them, investors would not risk the investment.[17] If universities could not enjoin infringement, it is unlikely that the start-ups and other licensees would have flourished and had such an impact on the economy.

Exclusive rights are particularly important in the development of therapeutics (such as pharmaceuticals or medical devices). Therapeutic products are highly regulated and take

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[16] *See* Pub. L. No. 98-620, Title V, 98 Stat. 3335, 3364 (1984).

[17] In Senator Bayh's words, the Act was intended to make it possible for university patents to "be licensed to businesses who then had the incentive to invest the resources necessary to develop the idea and make it available to the consumers. Often the investment required tens, if not hundreds, of millions of dollars before the product reached the market. Without ownership rights, there would be no incentive to invest." AUTM, *Technology Transfer Stories: 25 Innovations That Changed the World*, at 11 (2006), *available at* http://www.betterworldproject.net (follow "Download PDF Files of Printed Reports").

years and tens to hundreds of millions of dollars to develop. Without assurance of exclusivity, pharmaceutical companies would not develop them. With every passing year, more large pharmaceutical companies exit the therapeutic discovery business and instead license the technology from universities or small companies, or acquire small companies themselves.

Approximately 39% of new drugs approved by the FDA from 1998 to 2003 originated from outside pharmaceutical companies—24% came from public research.[18] If exclusivity and the right to enjoin infringers had not been available to universities because they did not directly commercialize the inventions, a significant number of new drugs would never have gotten to market, all to the detriment of the public health and the goals of the Bayh-Dole Act.

CONCLUSION

The judgment should be affirmed.

Respectfully submitted,

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March 10, 2006

[18] *See* Robert Kneller, *The Origins of New Drugs*, 23 Nature Biotechnology 529, 529 (May 2005).

No. 05-130

IN THE

Supreme Court of the United States

EBAY INC.

Petitioner,

v.

MERCEXCHANGE, L.L.C.

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* YAHOO! INC. IN SUPPORT OF PETITIONER

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QUESTIONS PRESENTED

The question presented by petitioner is whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

This Court directed the parties to address whether it should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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INTEREST OF AMICUS CURIAE[1]

Yahoo! Inc. ("Yahoo!") provides services to more than 411 million individuals each month worldwide and operates the world's most popular Internet destination. The company is a leading innovator in the computer and Internet sector, holds a wide array of patents relating to Internet communication, and also licenses a variety of technology patents both to and from third parties. From time to time, Yahoo! finds it necessary to enforce its own patent rights as well as to defend itself against allegations that it infringed a third party's patent. Accordingly, Yahoo!'s interest is in an efficient patent system that fairly rewards innovation.

Innovation and efficiency will not be advanced by the rule announced by the Federal Circuit in this case, under which permanent injunctions must always issue upon a finding of patent infringement absent a danger to public health or safety. Although permanent injunctions are generally warranted upon a finding of infringement, "patent trolls" – entities whose primary purpose is to tax rather than engage in innovation – should not be allowed to use automatic injunctions to extract settlements greatly exceeding the true economic value of their patents from legitimate companies. This Court should make clear that the lower courts have discretion under 35 U.S.C. § 283 to prevent patent trolls from abusing the patent system in this manner.

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[1] Counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court. No counsel for any party authored this brief in whole or in part, and no person or entity, other than the named *amicus curiae* and its counsel, contributed monetarily to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

Patent law rewards innovation by providing an important incentive – the right to exclude – so that inventors will risk investing time and money in the hope of developing new products and processes that will benefit consumers. In many cases, it is appropriate to respond to a finding of patent infringement by granting a permanent injunction to a patent holder.

But "patent trolls" – entities whose primary purpose is to prey on innovators who actually produce societally valuable products – abuse the patent system by obtaining patents for the purpose of coercing settlements from such innovators. Issuing trolls automatic injunctions upon a finding of infringement allows them to extort settlements that vastly exceed the true economic value of their patents and imposes enormous social costs, particularly in the computer and Internet industries. Indeed, the rule adopted in the decision under review creates an enormous incentive for trolls to generate court-clogging, inefficient litigation that disrupts the ongoing operations of genuine innovators.

The decision under review should be reversed because it prevents trial courts from exercising their equity jurisdiction to rein in patent trolls. The Court should make clear that Congress in fact specifically intended trial court judges to possess and exercise that authority. Indeed, the essence of the equitable power expressly reserved by Section 283 is the ability to look through legal niceties to ensure a just and socially efficient result, as courts often do in patent cases.

Distinguishing a patent troll from a party that ought to be awarded an injunction is not always easy. This Court should provide the lower courts specific guidance regarding relevant factors to consider to aid in the exercise of their equitable discretion. The ultimate question is whether future

innovation will be encouraged by strict enforcement of the patent. Accordingly, a particularly important factor in determining whether a patent holder may be a troll is the fundamental nature of the business entity. As noted above, patent law should permit innovators to realize the economic value of their inventions as an incentive to further innovation. But trolls lie outside of that purpose because they exist primarily to tax, not engage in, innovation. More specifically, trolls acquire patents and engage in behaviors to increase the *settlement* value of those patents without adding anything of *societal* value.

A second inquiry for trial courts addressing the propriety of an injunction is therefore whether the patent holder engaged in strategic "troll-like" behavior in order to ambush a legitimate business with its patent. For example, even while operating within the letter of permissible PTO practice, trolls may manipulate those processes to delay patent issuance and thereby set a "trap" for claimed infringement. Alternatively, trolls may delay invoking the patent, knowing that the value of the infringing use to the infringer will increase during the delay. The precise facts that will allow lower courts to detect such abuses of patent processes will vary, of course, but the nature of equity jurisdiction is to allow the courts to assess the totality of the circumstances in order to seek a just and socially rational result.

In short, while trial courts should examine these and any other factors bearing on the equities, patent-monetization entities that have engaged in strategic "troll-like" behavior should not be entitled to injunctions. Indeed, entities established for purposes of patent monetization should be entitled to no more than reasonable damages under Section 284 even when they have *not* engaged in troll-like abuses. A contrary rule would provide undesirable incentives for trolls

to seek settlements in excess of the true economic value of their patents while doing nothing to promote innovation.

Reversing the Federal Circuit's decision and providing the lower courts with guidance concerning the factors that should be used to determine whether to grant an injunction does not require this Court to overturn *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). Although the Court in *Continental Paper Bag* correctly held that a patent holder was entitled to an injunction even where it did not use its patent to manufacture products, the Court also recognized that there could be cases where "a court of equity might be justified in withholding relief by injunction." *Id.* at 430. As described more fully in Section III of this brief, availability of injunctions should turn largely on whether the patentee engages in research and development and should discourage entities whose sole business is patent litigation. Under the standard we propose, the plaintiff in *Continental Paper Bag* was not a patent troll and therefore was entitled to an injunction.

The standard we are suggesting will not work a radical change in the operation of the patent system. While troll-initiated litigation is growing rapidly, most patent cases still involve traditional research- or product-oriented patent holders.

In the case at bar, the Court should hold that lower courts may decline to issue an injunction in appropriate cases, and remand for determination in accordance with the factors set out in this brief.

ARGUMENT

I. A RULE MAKING THE ISSUANCE OF AN INJUNCTION VIRTUALLY AUTOMATIC UPON A FINDING OF PATENT INFRINGEMENT PERMITS PATENT TROLLS TO ABUSE THE PATENT SYSTEM.

While some may argue for a severe rollback of patent rights to stop the recent problem of "patent trolls," in our view no fundamental change in patent protections is warranted at this time. The founders of this country, this Court, and Congress have long recognized that strong patent protection promotes innovation and benefits the nation's economy and consumers. As this Court explained:

> The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts.' The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens.

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974) (citing U.S. CONST. art I, § 8, cl. 8.). Indeed, most commentators agree that strong patent protection generally leads to demonstrably positive results and that an injunction is

in most cases the economically appropriate remedy for infringement.[2]

A. Trolls Can Use the Patent System To Ambush Computer and Internet Companies.

The enormous complexity of the computer and Internet sector has, however, given rise to a "new breed of entrepreneurs" known as "patent trolls."[3] These entities do not innovate, but rather seek to acquire broad and nebulous patent claims that arguably encompass existing technologies relied on by companies with deep pockets. By acquiring these claims and threatening or pursuing litigation, the patent trolls seek and often receive economic settlements from genuine innovators and producers that greatly exceed the true economic value of the patents in question. The key weapon

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[2] *See, e.g.*, Robert P. Merges, *Of Property Rules, Coase and Intellectual Property*, 94 Columbia L. Rev. 2655, 2655 (1994) ("[P]roperty rules can and do work effectively in many situations involving [intellectual property rights]."); Stephen A. Merrill, *et al.* eds., National Research Council, *A Patent System for the 21st Century*, at 21-25 (2004) (describing changes in U.S. patent policy over last 20 years); Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 1:18-23 (2003) (same).

[3] Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 No. 1 Intell. Prop. L. Bull 1 (2005); *see also* William M. Bulkeley, "*Court Play: Aggressive Patent Litigants Pose Growing Threat to Big Business*," Wall St. J., Sept. 14, 2005, at A1; James Kanter, "*Ownership of Ideas Is High-Stakes Game*," Int'l Herald Trib., Oct. 3, 2005, at 1.

wielded by the patent trolls is the threat of a permanent injunction that can "hold up" the sale of a complex product that may incorporate literally thousands of non-infringing patented processes. *See To Promote Innovation* 3:39-41, 3:51-55.

As the Federal Trade Commission recently explained, innovation in the computer and Internet industry is often incremental and cumulative, and the pace of change is rapid.[4] The net result is that each marketable product in this industry may incorporate – often in an incidental, tangential, and sometimes unintentional way – hundreds or even thousands of patented processes. This is commonly described as a "patent thicket": "a dense web of overlapping intellectual

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[4] *To Promote Innovation* 3:34-37 (discussing computer hardware), 44-46 (computer software and Internet). Notably, the FTC has contrasted Internet and computer innovation with discoveries in the pharmaceutical industry, where most innovation involves discrete discoveries – such as a "new chemical entit[y]" (NCE) – rather than incremental improvements on existing discoveries. *Id.* 3:4-6. This difference in industry structure – rather than any disagreement about the importance of rewarding and protecting genuine innovation – explains why the pharmaceutical companies generally support the wholly mechanical enforcement of patent holders' rights. These companies do not face the problems, described below, that arise when "patent trolls" seek settlements based on alleged infringement by one of *many* patents incorporated in a single computer or Internet product. As explained below, the narrow exception to the general permanent injunction rule that Yahoo! proposes will not adversely impact the intellectual property rights of pharmaceutical companies.

property rights that a company must hack its way through in order to actually commercialize new technology." Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, in INNOVATION POLICY AND THE ECONOMY 119, 120-121 (Adam Jaffee *et al.* eds., 2001); *see also To Promote Innovation* 2:27-31, 3:2, 34-35, 52-53.

The patent thicket and other well-recognized inefficiencies in the current patent system provide the raw material for patent trolls' machinations. As an initial matter, far too many low quality patents issue, as the district court in this case noted.[5] The PTO approves between 85 to 97 percent of the applications it receives. C. Quillen and O. Webster, *Continuing Patent Applications and Performance of the U.S. Patent Office*, 11 Fed. Cir. Bar J. 1, 1-21 (2001). After a careful review of the available evidence, a blue-ribbon panel of the National Research Council recently concluded that "[t]here are several reasons to suspect that more issued patents are deviating from . . . desirable standards of . . . non-obviousness and that this problem is more pronounced in fast-moving areas of technology newly subject to patenting." *A Patent System for the 21st Century* 51. The panel emphasized that the number of patent

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[5] Pet. App. 57a-58a; *see also* Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L.J. 577, 589 (1999) ("There are persistent reports that patents in the software area, and perhaps especially, patents for 'business methods' implemented in software, are of extremely poor quality," and routinely "overlook clearly anticipating prior art.").

examiners at the PTO has not kept pace with the explosion in the number and complexity of patent applications. *Id.*

In addition, savvy patent practitioners have become skilled at manipulating the PTO's procedures to create "submarine patents," whose existence is hidden until a company with deep pockets has sunk irreversible investment into arguably infringing technology.[6] As the FTC explains the practice, the patent troll frequently "allows its application to languish in the PTO while watching another company make substantial investments in a technology or product that will infringe the yet-to-be-issued patent." *Id.* Then, "[o]nce the other company's sunk costs are large, the patent applicant obtains the patent, asserts infringement, and 'holds up' the other company, demanding supra-competitive royalties for a license to the 'submarine patent.'" *Id.*[7]

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[6] *To Promote Innovation* 1:26. The term "patent troll" connotes unfair surprise: "[A] troll hides under bridges, metaphorically speaking, waiting for companies to produce and market products, that is, to approach and cross the bridge. The ugly, evil troll then leaps up and demands a huge toll, that is, a licensing fee settling actual or threatened patent litigation, litigation that could result in an injunction halting the product line." Donald S. Chisum, *Reforming Patent Law Reform*, 4 J. Marshall Rev. Intell. Prop. L. 336, 340 (2005); *see also id.* at 348 (criticizing the Federal Circuit's decision in this case on the ground that "injunctions to protect property rights are not automatic and [should] take into account equitable factors").

[7] To address this problem, Congress amended the Patent Act in 1999 to require publication of patent applications within eighteen months of filing. Applicants can avoid this requirement, however, by filing for patent protection only in

To compound the problem, no computer or Internet company can be confident that its product will not ultimately be found by a court to infringe existing patents, even if it engages in an extensive patent search that may substantially delay release of a product and cost millions of dollars. *Footsteps of the Patent Troll*, 10 No. 1 Intell. Prop. L. Bull at 3-4; *To Promote Innovation* 3:53-54, 3:39-40. This is true both because of the sheer number of patents in this area and also because "the metes and bounds of software patent claims are often ambiguous" until *after* the patent is construed by a district or appeals court. *Id.* 3:52. Indeed, the degree of *ex ante* uncertainty is underscored by the fact that a staggering 50 percent of district court patent determinations are overturned at the appellate level. *A Patent System for the 21st Century* 62; *see also id.* at 66 (noting that the average period between patent application and a final ruling on validity is 12.26 years). Moreover, because willful infringement carries a penalty of treble damages, many companies are wary of conducting exhaustive patent searches for fear of later having that fact used against them in an infringement action.[8]

In short, computer or Internet companies conducting their businesses honestly and carefully may find themselves

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the United States, 35 U.S.C. § 122, and patent trolls frequently do because the additional delay is often worth the cost of foregoing foreign intellectual property protection. Note, *The Disclosure Function Of The Patent System (Or Lack Thereof)*, 118 Harv. L. Rev. 2007, 2024 (2005).

[8] *See generally The Disclosure Function*, 118 Harv. L. Rev. at 2017-23 ("Given the prevalence of willful infringement verdicts in patent suits, innovators are exposed to significant financial risk whenever they search through the patent records.")

accused of infringing low-quality or hard-to-discover patents. By then, a company may have already invested significant amounts in product development that make it very expensive to redesign and redeploy a new product line to avoid the alleged infringement, even though the *ex ante* costs of doing so would have been quite small. *To Promote Innovation* 2:28-29. As the Federal Circuit acknowledged in another case, once a producer has made such investments, the threat of an injunction obliges the producer to

> pay [the patent holder] as much as it would cost to shift to a noninfringing product, an amount, given investment in infringing systems, perhaps far more than a reasonable royalty [as determined pre-investment]. These incentives . . . encourage patentees to adopt a strategy of ambush rather than providing fair notice.

Odetics, Inc. v. Storage Technology Corp., 185 F.3d 1259, 1273 (Fed. Cir. 1999) (case involving patent holder who unreasonably delayed bringing patent enforcement suit). In other words, injunctive relief enables patent trolls to extort settlements greatly in excess of the true economic value of their patents. Under 35 U.S.C. § 284, patent holders are entitled to the generous remedy of "damages adequate to compensate for the infringement but in no event less than a reasonable royalty" – *not* to the much higher payoff they can obtain with the aid of an injunction.

B. Issuing Injunctions to Trolls Harms Productive Firms.

Patent troll tactics are unappealing to true innovators. As a general matter, legitimate computer and Internet companies engage in "defensive patenting" as a way to negotiate the "patent thicket." *To Promote Innovation* 2:26-27, 3:35-36, 52. In other words, a company will patent a

wide range of novel, non-obvious, and useful ideas relating to its products even though it knows that not all those ideas will ultimately be incorporated into its products. These patents help to preserve the company's "freedom to operate" by acknowledging the possibility that, in the future, the company *may* need to use the patented technologies. *Id.* 3:33. In addition, such legitimate industry participants know that they will end up both *holding* patents used by their rivals and *using* patents held by their rivals. In this situation, sometimes described as "mutually assured destruction," each side has a strong incentive to decline to enforce their patents in return for mutual forbearance. *Id.* 2:30-32, 3:37-39, 52. In some cases, these arrangements may be codified in formal "cross licensing" agreements, possibly involving a negotiated monetary exchange if one company's patent holdings are more valuable than another's. *Id.* 3:37-41, 52.

But cross-licensing arrangements and the threat of "mutually assured destruction" do not dissuade patent trolls from asserting unreasonable demands because they are "non-practicing entities." *Id.* 2:31-32, 3:38-39. "Faced with a competitor, [a] company could assert its own patent portfolio and reach a reasonable cross-licensing arrangement. But a troll does not need a license and therefore is uninterested in cross-licensing." Chisum, *Reforming Patent Law Reform,* 4 J. Marshall Rev. Intell. Prop. L. at 340.

Unfortunately, even companies with excellent legal defenses have strong incentives to settle with patent trolls asserting low-quality patents. One "industry rule of thumb" is that it costs $1.5 million to defend a typical case and $4 million to defend a damage claim of over $25 million. Wendy Schacht and John Thomas, Congressional Research Service, *Patent Reform: Innovation Issues* 7-8 (Library of Congress 2005) (noting that one large technology company has an annual patent defense budget of nearly $100 million).

To compound the problem, under current law, plaintiffs are permitted to bring infringement cases in any federal district court with personal jurisdiction over the alleged infringer, which allows patent trolls to shop for courts they consider likely to view their claims favorably. 28 U.S.C. § 1400(b). Accordingly, many companies accept offers from patent trolls to pay license fees, even for dubious patent claims, rather than risk trial. Mark A. Lemley, *Rational Ignorance at the Patent Office,* 95 Nw. L. Rev. 1495, 1517 (2001) (acknowledging that companies will find it rational to pay off patent trolls holding dubious claims).

Taken together, these features of the current patent system enable patent trolls to take particular advantage of software and Internet firms. As noted above, the existence of the patent thicket and the problem of low quality patents make it especially easy for trolls to acquire patents that arguably cover one of the hundreds or thousands of processes incorporated in a single high technology product. The troll waits until a company with deep pockets makes irreversible investments in the arguably infringing technology. The troll may even revise the terms of the patent (through a patent "reissuance" or "continuation") in light of the target's investment in order to strengthen the infringement claim. The troll then uses the threat of an injunction shutting down production to demand a significant share of the total profit associated with the product.

This gamesmanship results in no social benefit and a great deal of harm. First, trolls clog the legal system with complex and bitterly contested litigation. When successful, the trolls also extract large cash settlements from their victims, the companies that actually produce products of social value. Not only are these costs (as well as legal defense fees) eventually passed on to consumers – leading to economic deadweight loss – but in addition "innovation may

suffer because some companies will 'refrain from introducing certain products for fear of hold-up.'" *To Promote Innovation* 3:41 (citing *Navigating the Patent Thicket* at 126; Peter Grindley & David J. Teece, *Managing Intellectual Capital: Licensing and Cross-Licensing in Semiconductors and Electronics*, 39 Cal. Mgmt. Rev. 8, 20 (1997)).

II. TRIAL COURTS HAVE EQUITABLE POWER TO DENY INJUNCTIONS TO PATENT TROLLS.

As other briefs set forth in greater detail, the Federal Circuit's holding is inconsistent with Section 283. That provision states that trial courts "*may grant* injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable" (emphasis added). The statute could hardly be more clear that courts likewise *may deny* injunctions when "principles of equity" support that result.

A. Courts Have Traditionally Barred Uses of the Patent System that Are Contrary to the Public Interest.

The Federal Circuit was obliged to acknowledge that the courts have denied injunctions to "protect public health," Pet. App. 26a, but suggested that such circumstances represent the lone limitation on a patentee's general "right to exclude," *id.* at 27a. That suggestion is wholly unsubstantiated. While it is true that some early cases denied injunctions based on a threat to public health or safety, *see, e.g., City of Milwaukee v. Activated Sludge*, 69 F.2d 577, 593 (7th Cir. 1934); *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found., Inc.*, 146 F.2d 941, 944-45 (9th Cir. 1945), that

justification for withholding injunctive relief has never been exclusive.

To the contrary, in the years before patent appeals were directed exclusively to the Federal Circuit, appellate courts repeatedly upheld the denial of permanent injunctions in patent cases for other reasons. For example, in *Nerney v. New York, N.H. & H.R. Co.*, 83 F.2d 409, 411 (2d Cir. 1936), the court denied a permanent injunction to a railroad company where it was "recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement." And in *Foster v. American Machine & Foundry Co.* 492 F.2d 1317, 1324 (2d Cir. 1974) (some citations omitted), the court denied a permanent injunction to a manufacturer because

> [a]n injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. 35 U.S.C. § 283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. Here, as the District Court noted, the [defendant] manufactures a product; the [plaintiff] does not. In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable.

More broadly, it is the nature of equity that new situations and even categories of situations will arise as patent practice evolves. As this Court has frequently observed, the essence of the courts' equitable power is the ability to look through legal niceties to ensure a just result. *See, e.g., Young v. Higbee Co.*, 324 U.S. 204, 209 (1945) ("Equity looks to the substance and not merely to the form.").

This has led the Court to well-known decisions such as *Morton Salt Co. v. G. S. Suppiger Co.*, in which it applied equitable principles to deny patent protection to a company using its patent to restrain trade. 314 U.S. 488, 494 (1942) ("The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy.").[9]

Of particular importance, this Court has previously invoked its equitable authority to impose limits on a patentee's ability to employ unfair surprise to extort money from genuine innovators who had reasonably relied on the

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[9] This Court has issued other patent decisions applying equitable principles to prevent savvy parties from subverting the larger purposes of the law. *See, e.g., Edward Miller & Co. v. Bridgeport Brass Co.*, 104 U.S. 350 (1882) (significantly limiting the then-common practice of "reissuing" patents – often based on flimsy assertions that the original application contained a mistake – to prevent harm to parties that had relied on the patent's original specification); *Boyden Power-Brake Co. v. Westinghouse*, 170 U.S. 537, 568 (1898) (finding noninfringement notwithstanding that the product at issue met all the patent claim limitations, because it was "so far changed [in] principle" that it should not, in fairness, be subject to the claim in question). The *Boyden* holding, now known as the "reverse doctrine of equivalents," has been explained by commentators as facilitating follow-on inventors' ability to make improvements to the original design. *See generally* Robert Merges, *Intellectual Property Rights and Bargaining Breakdown: The Case of Blocking Patents*, 62 Tenn. L. Rev. 75 (1994).

protections of the patent system. In *Woodbridge v. United States*, 263 U.S. 50 (1923), and *Webster Electric Co. v. Splitdorf Electrical Co.*, 264 U.S. 463 (1924), the Court developed the equitable doctrine of "prosecution laches." This doctrine prevents parties from benefiting from unreasonable lassitude in seeking issuance of a patent, particularly where the patent holder mounted a strategy of "designed delay" to amend its application in order to generate infringement claims against products created in the intervening period. 263 U.S. at 56, 51-53. Significantly, the Federal Circuit recently reaffirmed and applied the prosecution laches doctrine to patent claims by a notorious businessman – Jerome H. Lemelson – who largely invented the field of patent trolling. *See Symbol Techs. Inc. v. Lemelson Med. Educ. & Research Found.*, 277 F.3d 1361 (Fed. Cir. 2002) & 422 F.3d 1378 (Fed. Cir. 2005); Michelle Armond, *Introducing the Defense of Independent Invention to Motions for Preliminary Injunctions in Patent Infringement Lawsuits*, 91 Calif. L. Rev. 117, 117-120 (2003) (describing Lemelson's tactics).

Similarly, this Court has recognized the equitable defense of laches where a patent holder has unreasonably delayed bringing a suit for patent infringement. *See, e.g., Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893); *Wollensak v. Reiher*, 115 U.S. 96 (1885). The Federal Circuit routinely applies this rule to prevent damage recovery for the pre-complaint period, *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1028-39 (Fed. Cir. 1992) (en banc), and has even made clear that a patent holder cannot seek a permanent injunction under Section 283 for infringing goods produced during a laches period, *Odetics*, 185 F.3d at 1273 ("[A]llowing a patentee who commits laches to enjoin nonetheless the further use of a pre-complaint product will, in many cases, allow the patentee to recover royalties

[through the threat of hold up] that laches specifically prevents.").

As the Federal Circuit has indicated, however, a finding of laches is a severe ruling reserved for only the most "egregious cases" of delay in prosecution, *Lemelson*, 422 F.3d at 1385, and a presumption of ordinary laches arises only if the patent holder has waited more than six years since he or she knew or should have known of the alleged infringement, *A.C. Aukerman*, 960 F.2d at 1028. Laches is, in other words, a blunt instrument. As a practical matter, while it may detect and punish the most "egregious" troll misconduct, it does little to address patentee behavior (in connection with a valid patent) that is "merely" reprehensible. In our view, that is precisely what the lower court discretion inherent in Section 283 can accomplish. By recognizing that the holder of a valid patent may be entitled to not "less than a reasonable royalty" while at the same time denying questionable actors the leverage to extort far larger sums using an injunction, courts of equity can continue to ensure strong patent protection while eliminating the windfall gains that motivate trolls' behavior.

B. This Court Should Not Overrule *Continental Paper Bag*.

Recognizing the lower courts' equitable powers under Section 283 is fully consistent with this Court's ruling in *Continental Paper Bag*. In that case, Continental infringed a patent on a process for making paper bags held by Eastern Paper Bag Company. The Court affirmed the award of an injunction to Eastern, indicating that patents generally confer upon the inventor a "right to exclude" and that an injunction will usually be the appropriate remedy upon a finding of an infringement. 210 U.S. at 425. But the Court ended its decision by specifically stating that there could be cases

where "a court of equity might be justified in withholding relief by injunction." *Id.* at 430.

The main issue in *Continental Paper Bag* was whether the Eastern Paper Bag Company had *unreasonably* failed to use its patent. Continental argued to this Court that the issue "is not that of the simple nonuse of a patent, but a long and unreasonable nonuse of it." 210 U.S. at 427. The Court rejected Continental's argument, finding that Eastern's explanation for nonuse – that it did not use the patent because it did not want to replace its existing machinery with more expensive equipment,. *id.* at 429 – was reasonable.

In our view, an injunction was warranted in *Continental Paper Bag*. Eastern was a true innovator that had not delayed in obtaining its patent or taken any other step suggesting that its intent was to spring the patent on Continental merely to obtain a settlement in excess of a reasonable royalty. Accordingly, it would be entirely appropriate for a trial court today to exercise its equitable authority to grant an injunction in analogous circumstances. As discussed above, computer and Internet innovators frequently obtain patents that they do not currently use and may never use. Indeed, in recent years this practice has become a business necessity helping innovators to navigate the patent thicket while avoiding expensive litigation. In short, *Continental Paper Bag* correctly held that simple nonuse does not warrant the denial of an injunction.

III. THIS COURT SHOULD PROVIDE SPECIFIC GUIDANCE TO HELP LOWER COURTS IDENTIFY AND DISCOURAGE PATENT TROLLS.

As set forth above, this Court's holding in *Continental Paper Bag* indicates both that: (1) an injunction will usually be the appropriate remedy upon a finding of infringement

and (2) there may be cases in which the lower courts may properly withhold an injunction in the exercise of their equitable jurisdiction under Section 283.

In accordance with our discussion of troll behavior (*see supra* Section I), determining whether a particular patent holder should be awarded an injunction demands a fact-specific inquiry that cannot be reduced to a rigid checklist. But two factors are most important in distinguishing patent holders entitled to an injunction from patent trolls that are not. The first is the nature of the entity. If it is an entity organized for the purpose of investing in litigation rather than innovation, a remedy at law is more than adequate to compensate any legitimate claims it might have. The second is whether the entity engaged in any strategic troll-like behavior designed to increase disproportionately the settlement value of its claim. If such an entity set a trap for a productive firm, it should not be entitled to an injunction.

1. The Business Purposes of the Patent Holder. A particularly important factor in determining whether a patent holder may be a troll is the fundamental nature of the business entity. As discussed above, among the purposes of patent law is to allow innovators to realize the economic value of their inventions as an incentive to further innovation. Trolls lie outside of that purpose because they exist primarily to tax innovation rather than engage in it. Their *raison d'être* is to acquire patents and then engage in behaviors that will increase the *settlement* value of those patents without adding anything of *societal* value.

Plainly, a legitimate company that *does* produce something of social value and holds patents related to its products and processes (or markets it seeks to enter) cannot be considered a troll. This describes the majority of patent holders engaged in patent litigation; for them, the standard

we are suggesting will have no impact. Similarly, a legitimate research and development company that recoups its investment by licensing the results of its research is not a troll. This remains true regardless of whether such legitimate product- or research-oriented companies find it useful to create a separate subsidiary, affiliate, or other related entity to hold and enforce its patents. This inquiry should focus not on the narrow corporate entity holding the patents, but on the question of whether that company is part of an overall organization producing something of value or is merely an entity established for purposes of patent monetization through litigation. Entities of the latter type present an asymmetrical threat to potential defendants – unlike legitimate producers, patent trolls have no potentially infringing products of their own, and therefore no incentive to engage in the formal and informal cross-licensing agreements that resolve many claims of infringement without litigation.

Awarding an *automatic* injunction to an entity focused on monetizing patents through litigation would permit it to negotiate a settlement substantially in excess of the true economic value of the infringed patent by enabling it to threaten to shut down the production of socially useful products even where it would suffer no irreparable harm. This point was the key to the approach adopted by the Second Circuit in *Nerney* and *Foster*, where it declined to award injunctions to parties merely to strengthen their settlement position. *Nerney*, 83 F.2d at 411; *Foster*, 492 F.2d at 1324. Moreover, the Federal Circuit has carefully interpreted Section 284, which authorizes damages, to ensure that patent holders receive relief that is proportionate to the contribution of their invention to the overall economic value of the end product. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549-51 (Fed. Cir. 1995). If, in contrast, patent

holders receive payments that greatly exceed that amount, they will have incentives to invest disproportionate social resources in "troll-like" behaviors to increase the settlement value of their patents.

A remedy at law should generally be adequate to compensate the legitimate interests of an entity focused on monetizing patents through litigation. Under Section 284, they are entitled to an amount equal to a reasonable royalty upon a finding of infringement. Permitting such an award, while denying the opportunity to extort an additional amount, achieves an equitable result. At the same time, the courts should continue to award injunctions to legitimate companies producing socially valuable products to continue to encourage innovation consistent with the underlying principles of patent law.

2. *Strategic "Troll-Like" Behavior.* A second factor for trial courts to consider is whether the patent holder engaged in strategic "troll-like" behavior in order to ambush a legitimate business with its patent. For example, even while operating within the letter of permissible PTO practice, trolls may manipulate those processes to delay patent issuance for the purpose of setting a "trap" for claimed infringement. Important indicators of this technique include (a) an abnormally long time to publicize the claim, (b) a series of continuations and amendments that reflect post-application developments by firms that develop actual products, and (c) other actions by the patent holder, possibly involving other patents, confirming that the focus of its business is extracting settlements based on dubious patent infringement claims.

Trial courts also should consider whether the patent holder engaged in other forms of delay or abuse – for example, in invoking the patent – knowing that the value of the infringing use to the infringer would increase during the

delay. Frequently, trolls deliberately wait until *after* the target company makes large and irreversible investments in a particular technology before springing the patent trap. The precise facts that allow lower courts to "smoke out" such abusers of the patent system will vary, of course, from case to case – but the nature of equity jurisdiction is to allow lower courts to assess the totality of the circumstances in order to seek a just and socially rational result. As this Court has explained, "[u]ndoubtedly 'equity does not demand that its suitors shall have led blameless lives,' but additional considerations must be taken into account where maintenance of the suit concerns the public interest as well as the private interests of suitors." *Morton Salt*, 314 U.S. at 493 (internal citations omitted).

In sum, we propose two factors for courts to consider in weighing the equities: (1) the business purpose of the patent holder; and (2) strategic "troll-like" behavior. We believe these factors preserve the judiciary's equitable jurisdiction while maintaining a strong patent system that protects true innovators.

CONCLUSION

The decision of the Federal Circuit should be reversed. However, this Court need not, and should not, reverse its decision in *Continental Paper Bag*. On remand, the courts below should exercise their equitable authority under Section 283 to grant or deny an injunction consistent with the guidance provided by this Court.

Respectfully submitted,

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January 26, 2006

Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

EBAY INC. ET AL. *v.* MERCEXCHANGE, L. L. C.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 05–130. Argued March 29, 2006—Decided May 15, 2006

Petitioners operate popular Internet Web sites that allow private sellers to list goods they wish to sell. Respondent sought to license its business method patent to petitioners, but no agreement was reached. In respondent's subsequent patent infringement suit, a jury found that its patent was valid, that petitioners had infringed the patent, and that damages were appropriate. However, the District Court denied respondent's motion for permanent injunctive relief. In reversing, the Federal Circuit applied its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." 401 F. 3d 1323, 1339.

Held: The traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies to disputes arising under the Patent Act. That test requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. The decision to grant or deny such relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. These principles apply with equal force to Patent Act disputes. "[A] major departure from the long tradition of equity practice should not be lightly implied." *Weinberger* v. *Romero-Barcelo*, 456 U. S. 305, 320. Nothing in the Act indicates such a departure. Pp. 2–6.

401 F. 3d 1323, vacated and remanded.

THOMAS, J., delivered the opinion for a unanimous Court. ROBERTS,

Syllabus

C. J., filed a concurring opinion, in which SCALIA and GINSBURG, JJ., joined. KENNEDY, J., filed a concurring opinion, in which STEVENS, SOUTER, and BREYER, JJ., joined.

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 05–130

EBAY INC., ET AL., PETITIONERS *v.*
MERCEXCHANGE, L. L. C.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

JUSTICE THOMAS delivered the opinion of the Court.

Ordinarily, a federal court considering whether to award permanent injunctive relief to a prevailing plaintiff applies the four-factor test historically employed by courts of equity. Petitioners eBay Inc. and Half.com, Inc., argue that this traditional test applies to disputes arising under the Patent Act. We agree and, accordingly, vacate the judgment of the Court of Appeals.

I

Petitioner eBay operates a popular Internet Web site that allows private sellers to list goods they wish to sell, either through an auction or at a fixed price. Petitioner Half.com, now a wholly owned subsidiary of eBay, operates a similar Web site. Respondent MercExchange, L. L. C., holds a number of patents, including a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants. See U. S. Patent No. 5,845,265. MercExchange sought to license its patent to eBay and Half.com, as it had previously done with other companies, but the

parties failed to reach an agreement. MercExchange subsequently filed a patent infringement suit against eBay and Half.com in the United States District Court for the Eastern District of Virginia. A jury found that MercExchange's patent was valid, that eBay and Half.com had infringed that patent, and that an award of damages was appropriate.[1]

Following the jury verdict, the District Court denied MercExchange's motion for permanent injunctive relief. 275 F. Supp. 2d 695 (2003). The Court of Appeals for the Federal Circuit reversed, applying its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." 401 F. 3d 1323, 1339 (2005). We granted certiorari to determine the appropriateness of this general rule. 546 U. S ___ (2005).

II

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. See, *e.g.*, *Weinberger* v. *Romero-Barcelo,* 456 U. S. 305, 311–313 (1982); *Amoco Production Co.* v. *Gambell,* 480 U. S. 531, 542 (1987). The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. See, *e.g.*, *Romero-*

[1] EBay and Half.com continue to challenge the validity of MercExchange's patent in proceedings pending before the United States Patent and Trademark Office.

Barcelo, 456 U. S., at 320.

These familiar principles apply with equal force to disputes arising under the Patent Act. As this Court has long recognized, "a major departure from the long tradition of equity practice should not be lightly implied." *Ibid.*; see also *Amoco*, *supra*, at 542. Nothing in the Patent Act indicates that Congress intended such a departure. To the contrary, the Patent Act expressly provides that injunctions "may" issue "in accordance with the principles of equity." 35 U. S. C. §283.[2]

To be sure, the Patent Act also declares that "patents shall have the attributes of personal property," §261, including "the right to exclude others from making, using, offering for sale, or selling the invention," §154(a)(1). According to the Court of Appeals, this statutory right to exclude alone justifies its general rule in favor of permanent injunctive relief. 401 F. 3d, at 1338. But the creation of a right is distinct from the provision of remedies for violations of that right. Indeed, the Patent Act itself indicates that patents shall have the attributes of personal property "[s]ubject to the provisions of this title," 35 U. S. C. §261, including, presumably, the provision that injunctive relief "may" issue only "in accordance with the principles of equity," §283.

This approach is consistent with our treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses "the right to exclude others from using his property." *Fox Film Corp.* v. *Doyal*, 286 U. S. 123, 127 (1932); see also *id.*, at 127–128 ("A copyright, like a patent, is at once the equivalent given by the public for benefits bestowed by the genius and meditations

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[2]Section 283 provides that "[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

and skill of individuals, and the incentive to further efforts for the same important objects" (internal quotation marks omitted)). Like the Patent Act, the Copyright Act provides that courts "may" grant injunctive relief "on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U. S. C. §502(a). And as in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed. See, *e.g.*, *New York Times Co.* v. *Tasini*, 533 U. S. 483, 505 (2001) (citing *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U. S. 569, 578, n. 10 (1994)); *Dun* v. *Lumbermen's Credit Assn.*, 209 U. S. 20, 23–24 (1908).

Neither the District Court nor the Court of Appeals below fairly applied these traditional equitable principles in deciding respondent's motion for a permanent injunction. Although the District Court recited the traditional four-factor test, 275 F. Supp. 2d, at 711, it appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases. Most notably, it concluded that a "plaintiff's willingness to license its patents" and "its lack of commercial activity in practicing the patents" would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. *Id.*, at 712. But traditional equitable principles do not permit such broad classifications. For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so. To the extent that the District Court adopted such a categorical rule, then, its analysis cannot be squared

with the principles of equity adopted by Congress. The court's categorical rule is also in tension with *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 422–430 (1908), which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.

In reversing the District Court, the Court of Appeals departed in the opposite direction from the four-factor test. The court articulated a "general rule," unique to patent disputes, "that a permanent injunction will issue once infringement and validity have been adjudged." 401 F. 3d, at 1338. The court further indicated that injunctions should be denied only in the "unusual" case, under "exceptional circumstances" and "'in rare instances . . . to protect the public interest.'" *Id.*, at 1338–1339. Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief. Cf. *Roche Products* v. *Bolar Pharmaceutical Co.*, 733 F. 2d 858, 865 (CAFed 1984) (recognizing the "considerable discretion" district courts have "in determining whether the facts of a situation require it to issue an injunction").

Because we conclude that neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief, we vacate the judgment of the Court of Appeals, so that the District Court may apply that framework in the first instance. In doing so, we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any number of other disputes arising under the Patent Act. We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.

Accordingly, we vacate the judgment of the Court of Appeals, and remand for further proceedings consistent with this opinion.

It is so ordered.

SUPREME COURT OF THE UNITED STATES

No. 05–130

EBAY INC., ET AL., PETITIONERS *v.*
MERCEXCHANGE, L. L. C.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

CHIEF JUSTICE ROBERTS, with whom JUSTICE SCALIA and JUSTICE GINSBURG join, concurring.

I agree with the Court's holding that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards," *ante*, at 5, and I join the opinion of the Court. That opinion rightly rests on the proposition that "a major departure from the long tradition of equity practice should not be lightly implied." *Weinberger* v. *Romero-Barcelo*, 456 U. S. 305, 320 (1982); see *ante*, at 3.

From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. This "long tradition of equity practice" is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee's wishes—a difficulty that often implicates the first two factors of the traditional four-factor test. This historical practice, as the Court holds, does not *entitle* a patentee to a permanent injunction or justify a *general rule* that such injunctions should issue. The Federal Circuit itself so recognized in *Roche Products, Inc.* v. *Bolar Pharma-*

ceutical Co., 733 F. 2d 858, 865–867 (1984). At the same time, there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate. "Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Martin* v. *Franklin Capital Corp.*, 546 U. S. ___, ___ (2005) (slip op., at 6). When it comes to discerning and applying those standards, in this area as others, "a page of history is worth a volume of logic." *New York Trust Co.* v. *Eisner*, 256 U. S. 345, 349 (1921) (opinion for the Court by Holmes, J.).

SUPREME COURT OF THE UNITED STATES

No. 05–130

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ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

JUSTICE KENNEDY, with whom JUSTICE STEVENS, JUSTICE SOUTER, and JUSTICE BREYER join, concurring.

The Court is correct, in my view, to hold that courts should apply the well-established, four-factor test—without resort to categorical rules—in deciding whether to grant injunctive relief in patent cases. THE CHIEF JUSTICE is also correct that history may be instructive in applying this test. *Ante*, at 1–2 (concurring opinion). The traditional practice of issuing injunctions against patent infringers, however, does not seem to rest on "the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee's wishes." *Ante*, at 1 (ROBERTS, C. J., concurring). Both the terms of the Patent Act and the traditional view of injunctive relief accept that the existence of a right to exclude does not dictate the remedy for a violation of that right. *Ante*, at 3–4 (opinion of the Court). To the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent. The lesson of the historical practice, therefore, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. See FTC, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, ch. 3, pp. 38–39 (Oct. 2003), available at http://www.ftc.gov/os/2003/10/innovationrpt.pdf (as visited May 11, 2006, and available in Clerk of Court's case file). For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. See *ibid.* When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

The equitable discretion over injunctions, granted by the Patent Act, is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system. For these reasons it should be recognized that district courts must determine whether past practice fits the circumstances of the cases before them. With these observations, I join the opinion of the Court.